Impact report gives smelter 'clean bill of health'

From Page 2

Marketing aluminium, the other major economic consideration in building a smelter, is evidently not within the ambit of the environmental impact report.

International aluminium demand projections assume a constant growth which the report puts down to the "the potential for the metal to be used as an energy-saving material in the packaging, transport, building and electrical industries".

The market does fluctuate though. World stock piles to the July 1980 year were up 7 per cent, discounting is a common practice and the Hong Kong and Rotterdam prices have been constant since March this year at $1750 a tonne.

The International Primary Aluminium Institute forecasts growth at 3 to 5 per cent with which the report concurs. IPAI studies also show that increased production will slow down in industrial countries owing to rising energy and labour costs and, ironically, environmental controls. Developing countries — New Zealand among them — will start to become of greater interest.

The report acknowledges the change in siting of smelters. "After 1974 the decline in energy availability coupled with major increases in the price of oil significantly raised costs . . . and producers recognised the need to seek alternative locations of energy sources."

Alusuisse, (Swiss Aluminium) which has a 25 per cent interest in the Aramoana project, recently caught a recalcitrant fish in its cheap electricity net. That company, which built a smelter in Iceland a decade ago, has been accused of massive tax evasion by the Icelandic Government.

Answering the allegations at the company's AGM on April 22 chairman Emanuel Meyer said "Alusuisse must ask itself whether it bet on the wrong horse by investing in Iceland. The only reason we invested in Iceland was the low price of electricity," he said.

Meyer called the Icelandic Minister of Trade a communist. He is actually a social democrat and regarded the remark as a threat.

That smelter stars in full colour in the environmental impact report because, according to Joseph Piet, the consortium PR man "it is located in a deep-sea port access situation. Any other questions about Alusuisse need to be taken up with the Government which has had assurances from Alusuisse," he said.

The Aramoana smelter which will be painted "to ensure that the structures integrate with the surrounding background" is on a site selected in concurrence with the Government's desire to see regional development in the South Island and to reduce power transmission losses.

The site does fit admirably with the company's criteria: Port access, level land protected from flooding, close to a labour force, infrastructure and facilities, adequate supply of water and plenty of wind.

Fifteen sites were considered but most failed to meet several criteria. Aramoana, with its favourable water, land, labour and wind conditions was a likely contender from the outset.

During the site selection there appeared to be "minimal adverse physical, biological or environmental consequences". Murray North and Partners, Bioresearchers Ltd and various Government departments contributed to the "multi-disciplined approach necessary to adequately assess the physical and biological impacts.

The report concludes "the plant's scale will dominate the harbour landscape, but there will be limited biological impacts from aerial emissions and discharge of liquid effluents".

Aluminium smelting does produce emissions containing fluorides, dust, sulphur dioxide and "various other substances". But the results of 100 years of smelting technology have greatly reduced emissions which are further reduced in this plant by the use of pneumatic feeding and computer control.

Hoods over the computer-controlled pots collect nearly all the evolution under normal operating circumstances. The "anode effect", a chemical imbalance which increases fluoride evolution can be detected by computer and corrected, eliminating the necessity to open the pot hood.

Dry scrubbers and fabric filters, through which the gases are sucked, catches most of the fluorides which are collected and returned, ultimately, to the pots.

Sulphur dioxide discharges will be proportioned to meet the Health Department memorandum on chimney heights, which is used for general industry in the country. Furnace gases will be passed through a water spray tower to cool and condense most of the condensate and then cleaned of condensate and dust.

What does get out will be blown away. A study conducted by the geography department of the University of Otago reports that "dispersion of emissions is likely to be satisfactory because the site enjoys persistent strong winds which blow towards the sea 8? per cent of the time".

Solid wastes — 145 tonnes a day — from pot and anode operation will, for the most part, be recycled. Non-recyclable wastes will be dumped in controlled areas for leaching or use in the landfill. If unacceptable impacts are identified "engineering remedies are available to overcome these" says the report.

Sewage will be oxidated, process waste streams will be treated and discharged to the land fill or harbour; fluorides carried back to earth by rain will be intercepted in retention basins for storm water run-off. Once through a primary cooling system effluents will be discharged to the harbour.

The proposed reclamation of 30 hectares is "unlikely to have any detectable effect on flora and invertebrate of adjacent areas" says the report which claims there will be no intrusion to the salt-marsh zone. The long construction period will "allow birdlife a long period of adjustment".

"There are no important areas of native vegetation or other habitats that would be destroyed or adversely affected by proposed development of the flat area. The displacement of bird population that uses the area at present would have no major adverse effect."

The report, weighing 1.5kg, is detailed and thorough in its assessment of environmental impacts — from fluorides through to noise to which colour to paint the walls — but it is not statutorily required to address questions that the general public have been expressing a need to discuss.

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NEW ZEALAND'S NATIONAL WEEKLY OF BUSINESS, POLITICS AND ECONOMICS

NATIONAL BUSINESS REVIEW

Incorporating Admark

80 cents

Inside

Discounts continue openly

by Warren Berryman

WHILE Transport Minister Colin McLachlan says he has received no information on illegal fare discounting (*NBR*, last week), Air New Zealand tickets were openly being sold in Auckland for 30 per cent less than the Government approved fare.

That discount was available to anyone with a $4.50 membership to Club International Society Inc, whose president, Richard Riddiford, is a nephew of the former Minister of Justice, Dan Riddiford.

Well documented evidence of this discounting has been sent to the Ministry of Transport, together with a request that the Government prosecute the state airline for breaking the rules that protect it from competition.

International air tariff regulations, policed by the Ministry of Transport, in effect prohibit airlines from offering consumers air fares cheaper than those officially filed by Air New Zealand.

A rival airline spent more than $2000 buying two discounted Air New Zealand tickets as evidence for the Ministry of Transport, to prompt the Government to investigate.

An accountant from this airline went to Budget Travel Ltd, one of several Auckland agencies offering discounted Air New Zealand tickets, and bought two tickets written out on Air New Zealand forms issued by Putaruru United Travel.

Both tickets were marked "non-endorsable", so the traveller must travel by Air New Zealand.

One ticket, an Auckland-Los Angeles-Auckland return ticket, showed a fare of $1990 plus $25 tax. The other, an Auckland-Los Angeles trip, showed a $995 fare plus $25 tax.

The total amount shown on the two tickets was the legal fare of $3035.

But the accountant paid only $2123.50 for both and received a receipt from Budget Travel for that amount.

To obtain the $911.50 discount, the accountant bought a $4.50 membership in Club International on the spot.

He was told he could not fly by any other airline and obtain the same discount.

These tickets, the receipt from Budget Travel, together with a sworn affidavit from the accountant, have been sent to the Ministry of Transport.

The ministry's senior advisory officer in charge of international airfare policy, Kathy Lythe, said she could not comment on the legality of such a transaction.

But she said: "You have reference to the International Air Tariff Regulations, which state quite clearly that no air travel organiser shall offer, arrange, or in any way let out international air transportation

Continued on Page 18

AS early as 1978, Transport Minister Colin McLachlan wrote a letter to a travel agent saying:

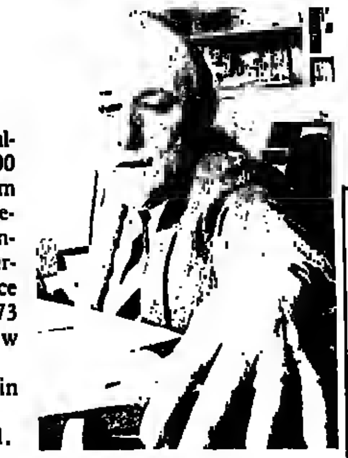
"The whole question of illegal discounting and rebating has been a matter of concern to Government for some time. In order to eliminate these and other marketing abuses, which I am aware do exist, I intend to introduce legislation which will enable Government to take effective action against offenders selling tickets in New Zealand."

No such effective action has been taken.

Less than three months ago, the Airline Steering Committee circulated a letter to airlines outlining no less than 28 separate complaints about non-approved airfares being advertised. Many concerned Air New Zealand tickets.

Since then, TAANZ has made several complaints to the Ministry about illegal fare discounting.

Muldoon's Budget



BORROW and boom . . .

Finance Minister Rob Muldoon is banking on $2000 million, to be financed from borrowing, to close the gap between state spending and income in a Budget which nevertheless gives him "confidence for the first time since 1973 that the future for New Zealand . . . is bright."

Klaus Sorensen and Colin James report: Page 3.

Bob Edlin reports: Page 11.

'Hidden' costs spiral

by Ann Taylor and Allan Parker

THE final price tag to New Zealand for two of the largest energy projects has jumped dramatically with release of previously unavailable "hidden cost" figures.

The final cost to the country for the second aluminium smelter is likely to be $2.5 billion — three times the cost put abroad by the developers and the Government.

The "hidden" costs of servicing overseas borrowings needed to build the plant and the $900 million to be spent on capital works to increase electricity generation in later years have to date not been included by officials and developers in the price of the smelter.

And the final price ticket, excluding high fuel costs, for the proposed New Zealand Steel expansion jumps from $730 million to $1.4 billion when interest payments on overseas financing are included.

NBR calculations do not include foreign exchange fluctuations (currently running against New Zealand's advantage) or cost and time over-runs. Both factors would increase the final costs still further.

Significantly, the Government now appears to believe the big project borrowing may have an impact on the level of Government borrowing necessary to finance the current account deficit.

Earlier this year, Energy Under-secretary Barry Brill was adamant in an interview with *NBR* that "the project financing is dealt with on a different basis to overseas borrowing that finances a Budget deficit." (*NBR*, May 18.)

Brill said the deficit borrowing was viewed as working capital and "the fact that New Zealand will be building up large project debts should not necessarily be a constraint on working capital."

Prime Minister Rob Muldoon now says the offshore financing proposals may be modified "at the national level" through their impact on deficit borrowing.

The *ad hoc* nature of thinking big also came to light when interest rates, foreign content and debt:equity ratios for eight of the big projects were spelt out in Parliament two weeks ago.

The extent of the debts which will be incurred by the projects is evident in descriptions supplied by Finance Minister Muldoon in answer to

Continued on Page 37

Big investors eye office equipment companies

by Klaus Sorensen

THE office equipmeot business is receiving unaccustomed attention from several large investors.

Brierley Investmenta Ltd is underatood to have built up a sizeable stake in the office equipment and mini-computer group, Andas, and major shareholding changes are thought to be taking place within British Office Supplies, which has just seen one of its major shareholders sell out.

Computer Consultants Ltd recently sold its 7 per ceot ahareholding in BOS. The identity of the buyer is a matter of speculation.

BOS managing director Ken Winton told *NBR* last week he knew who had hought the shares, hut he couldn't name the buyer because talks were taking place.

Asked if he had hought the ahares, Winton said: "I'd rather not answer — it's a little premature to say anything at the momeot — it may spark off something else."

He confirmed that discussions were being held with the McGee family, who hold the controlling interest in the company, "and I am party to them," Winton said.

Asked if he was aware of any outside interest io the company, or any sharebuying, he replied: "Yes I am." He said he could not elahorate.

Andas chairman John Pottinger told *NBR* he was aware that Brierley Investments had a stake in his company through the New Zealand United Corporation nominee company, Unlted New Zealand Nominees.

As at March, the United New Zealand shareholding had increased to the third largest of the shareholders with 6.56 per cent of the voting capital (ordinary and specified preference shares).

Both Andas and BOS have been subjects of peraistent rumours for years, hut unpredictable profits and the occasional loss in the last few years hss indicated the two have found trading increasingly difficult — and has reaulted in greater speculation that a rationalisation must he imminent.

But the Govemment Life office may hold the key for investors seeking control of either compaoy as it is the largest shareholder in hoth.

Andas is in a relatively vulnerahle position, with institutions holding the lion's share of the 39.7 per cent of shares which constitute the top 20 shareholders.

The CBA Finance shoreholdings list shows the largest shareholder in Andas as at December 17 is Government Life (144,000 shares, or 7.6 per cent of the copital). The second lorgest is State Insurance (5.3 per cent, or 101,000 shares) ond third largest is the AMP Society (4.4 per cent, or 83,000 shores).

Fourth ot the date of the list waa United NZ Nomineea (74,000 shores, or 3.9 per cent of the capital).

Pottinger told *NBR*: "We know there has heen a huyer of the shares lately through one nominee, but there are several other nominees olso huying which are difficult to identify."

The main nominee huyer had heen United NZ, which Pottinger said the hoard assumed to be Brierley. Later, he said: "You could say that I am aware that the United NZ holding is Brierley."

He said other nominees included Waiou Station Ltd, which he helieved was a nominee for a firm of accountants. This company had 1.6 per cent of the capital (30,500 shares) at the time of the last list, hut Pottinger said it had been consistently buying and had increased its holding since then.

If Brierley Investments does have ony intentions for Andas, they ore unlikely to he presented in the form of a takeover or a sudden *fait accompli*.

Pottinger is understood to know Ron Brierley and some of his executives quite well through his chairmanship of Gear Meot (Brierley owns 20 per cent of that company).

Pottinger said he thought that "if Ron Brierley had anything he wanted to say to us he would say it."

So far there had heen no approaches from Brierley, he said.

Asked if the directors had attempted to seek beneficial ownership disclosure of the nominee shareholdings, Pottinger said his hoard had not and generally wasn't concerned obout nominees if they didn't go beyond a certain size.

The board was "not concerned" about recent sharebuying ond made a practice of looking ot the 20 major shareholders every month.

Pottinger said that a more up-to-date shareholders list showed that as of March United NZ held 6.56 per cent of the voting capital comprising 107,000 ordinary and 16,500 preference shares.

The other major buyer of shares in the period to March had been the Government Life which had bought 35,000 preference shares to sdd to its 144,000 share ordinary holding — giving a total voting right of 9.5 per cent of the capital.

Brierley Investments spokesman Bruce Hancox offered the company's usual "no comment" to *NBR's* inquiries, but sources close to the Wellington investor say Andas is a longer-term holding — and not one of Brierley's high-priority investments ot the moment.

Meanwhile nearly 7 per cent of the British Office Supplies capital has changed hands.

Computer Consultants Ltd chairman Eddie Comish confirmed last week his company had recently sold its 161,000 share (6.9 per cent) stake in BOS. He declined to identify the huyer.

The company had held the shares for a "couple of years" and "we bought them when we thought maybe BOS would be a convenient vehicle for our retail computer systems, but in the intervening period we came to a satisfactory agreement with Whitcoulls for them to market our personal computer systems," Cornish said.

The BOS shareholders list at January 20 1981 shows the Government Life in a strategic position. It held 203,000 shares at that date (8.7 per cent of the capital).

The chairman Eric McGee is the second largest shareholder (162,000 shares, or 6.9 per cent). The combined McGee family shareholding is more than 10 per cent.

The fourth largest holder (after the unknown buyer of CCL's shares) is the National Mutual, with 120,000 shares or 5.1 per cent.

The week that was

IN his "last approach" to the Rugby Union Prime Minister Rob Muldoon took on nationwide radio and television time, but union chairman Ces Blazey sold Muldoon's statement raised no new issues.

MINISTERIAL drivers were under orders not to stop in unknown or threotening situations, the Prime Minister explained ofter a car carrying Miniater of Education Merv Wellington ollegedly occeleroted into anti-tour protesters in Christchurch.

FURTHER pressure for changes in the tax system came when L N Ross, chsirman of the 1967 committee on taxation, rejected Planning Council proposala. Changes to the taxation aystem also feature in remits to the National Party conference.

ON the 115th day of the "Mr Asia" drugs trial in Chorley, Lancashire, the jury retired.

Week to be

MONDAY: L and M Oil NZ AGM, Wellington.

Hunting ond Co AGM, Christchurch.

TUESDAY: Health Inspectors conference, Palmerston North, to Friday.

New Zealand Nurserymen's Association conference, New Plymouth, to Thursday.

Retail Traders Society conference, Rotorua, to Friday.

Fisher and Paykel AGM, Auckland.

WEDNESDAY: Wilson Horton AGM, Auckland.

Alloy Steel (NZ) AGM, Christchurch.

THURSDAY: New Zealand Power Boat Association, Hastings, to Saturday.

Budget: Let's hear it for inflationary pressures

by Kleus Sorenson

WHO ever said it wasn't an election-year Budget?

Last Thursday night's annual economic statement might oot have had the tax-cuts and other giveaways usually associated with election Budgets — hut for the business community it has all the inflationary impacta normally associated with an election Budget.

One company chairman told *NBR* hours hefore the Prime Minister began his hour-and-a-half epic, "they haven't really got much room to move in terms of major economic changes — after all they can't come up with a $2 hillion deficit for the current year."

A short time later Parliament was told the 1982 deficit before horrowing was expected to reach $2090 million.

The result of such a deficit increase, is bound to be highly inflationary. As demand is boosted, prices will rise, and the coming year will be great — for a while.

But the traditional post election year procedure, involving necessary and severe economic restraint — "belt tightening" — could see an end to a short-lived boom.

Rising demand will have to be curbed to slow the inflation rate.

One economist told *NBR* he was astonished in that respect at the "continued callousness" with which election-year Budgeta are prepared, and disputed Muldoon's use of the Gross Domestic Product as a comparison, to suggest that the latest deficit estimate ia historically not as big as It seems.

He claims the size of a deficit must be relsted to what is happening in the economy as a whole.

"It might he appropriate to increase your deficit when the economy is facing into a recession — to keep unemployment down — hut if the economy is picking up, as the Prlme Minister says it is, it will prove to he even more inflationary."

As a policy statement the Budget was little more than an amplification of the November 1980 statements on spending programmes for energy developments — but there must be doubt as to whether the expected benefits of these programmes will arrive in time to cover the deficit.

Though not a businessman's Budget there are benefits for sectors — such as building and fishing.

But there are those who will feel left out. The tourism industry was looking for more than just a mention — Muldoon acknowledged accommodation was a key to increasing tourist traffic, but suggested that Government policy had already dealt with the problem — citing plans for a Sheraton hotel in Auckland and a 350-hed hotel in Wellington as proof.

Contradicting this is a recent sell-out of hotels by locsl interests which suggests the returns from existing hotels are not sufficient to make the industry an attractive long term investment.

The industry might have preferred some sort of incentive based on the overseas revenue it generates.

Not only did the forestry industry miss out on any fillip but Muldoon hinted that existing incentives might be reduced or taken away.

His vague comment — "we shall consider whether assistance at its current level for the mojor units can continue to be justified" — will serve to inject a serious note of uncertainty in an industry up till now characterised by consistent progress.

And from the sharemarket's point of view the comments on forestry incentives must come as a shock — the market's unprecedented rise in the lost year hss been based on the hooming exporta of the forest companies.

However, the $1000 tax deduction offered to firat home buyers can be expected to have a countering effect on investor confidence. But it must be classed as the Budget's most expensive election bribe.

Though it won't have a marked effect on new housing starts, the incentive will make house-buying more ottractive and will have a flow-through effect on building suppliers, and allied manufacturera like carpet-makers, opplionce-manufacturers, paint and electrical groups.

While there were no direct henefits for those engineering and construction groups involved in the major projects, the Budget's restatement of this strategy and its importance in overcoming the country's bslance of payments difficulties, will come as music to the sharemarket's, albeit selective, ears.

Increases in cigarette prices

Continued Page 14

Words...without deeds

by Colin James

HOW to produce an election year Budget without appearing to: fill it up with words.

Finance Minister Robert Muldoon had already "spent the lot" before he took up his pen.

He could not spend any more so he did the next best thing: he did not take any of it back.

He thoughtfully provided himself with a scapegoat to boot: the Federation of Labour.

In the meantime voters can go on living on National hire purchase of near-1975 dimensions. Something will have to be done about that — but next year, not this.

By then some tough-minded MPs will be demanding real action on Government spending.

Muldoon also managed to throw crumbs to the "more market" movement in the National Party: not in action, but in rhetoric, it seems the less he does, the more he talks about it.

A selection:

- "To provide the incentive to achieve these improvements (in efficiency) market forces must be allowed to operate more freely."
- "The Government is prepared to replace import licensing gradually with tariff-based protection."
- A closer economic relationship with Australia "should...promote a more internationally competitive economy."

There was also a little hard evidence that he means it. Faced with on election need to do something about the lockout effect of high interest rates on first-home buyers, he went, not for controls, hut tax rebates.

But there was much of the old Muldoon: minor tinkerings with the social welfare systems for individuals, industry and agriculture; threata of controls to financial institutions (on money supply) and unions (on wages).

And the rhetoric still officially disdained "philosophical purity".

After all, Muldoon is first and foremost a politicker.

Thus he made a special gesture — in words — to medium and small business ("the major providers of employment") to head off depradations from Sociel Credit.

And he could not resist a few words from his opening speech of the 1975 election campaign to try to convince voters Lahour then was even more profligate than he is this year.

But as a document on which ao election year economic debate can be centred, the Budget does not provide much substance.

As one of the tougher minded Government backbenchers said when Muldoon sat down, "that's all going on outside the Budget": growth strategy, implementation of Industry studies and so on.

He probably represented caucus thinking when he described the Budget as "steady as she goes". At least it doesn't get in the way of the other things that are going on.

The week

Those two job reports: not to be confused

by Ann Taylor

UNEMPLOYMENT is about people, not statistics. The *Jobs and People* booklet released by the Government two weeks ago makes that statement just once.

The National Research Advisory Council group, in contrast, took that statement as a term of reference and couched its report in language appropriate to a human issue.

The furore following the release of the two documents has distracted attention from the principal issues: how many people are unemployed and what is the Government's commitment (if it has acknowledged the extent of the problem) to creating jobs.

The NRAC draft was prepared by a working party of seven people in good faith as an input to the employment debate.

The first draft of *Jobs and People* was prepared by Link Consultants in the three months from November to January, as part of a three-pronged contract from the Labour Department.

The draft was modified in the next five months, gathering further input from Government departments and going through numerous revisions.

Link was not producing a document of its own, contrary to what many people believe.

The Link contract included the compiling of a list of people and organisations involved in employment and the preparation of a research document for Labour Minister Jim Bolger.

The brief for the booklet was to present Government policy. It did not, therefore, include arguments on reducing the working week or redistributing income.

The research document apparently describes the various orientations of the different Government departments which are involved in the problem.

The booklet, which Bolger in his foreword says aims "to make sure everyone is fully informed" on the "Government's approach" to unemployment, ran to 20,000 copies.

Its 32 glossy pages are punctured ironically, by pictures of people working.

The only identifiable cost is Link's $37,000 contract price; the cost of printing, distributing and staff time have not been made public.

The booklet has been variously slammed as "facile and expensive", a "snow job" and "unfair on employers".

It tells us we have an unemployment problem, that the Government is concerned, and that there is employment and training assistance available — which employers are not making full use of.

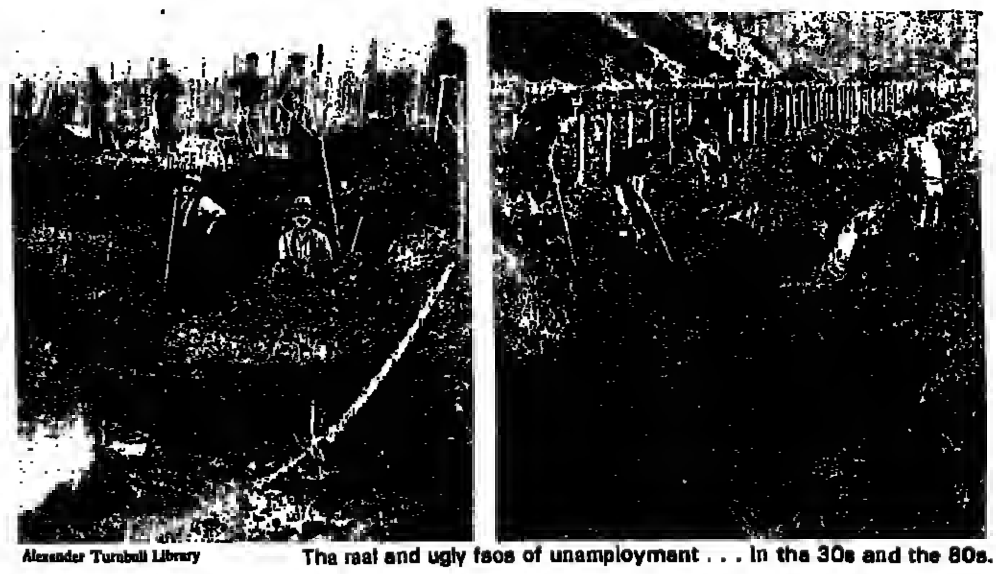
It does not spell out a "policy" or acknowledge that the creation of employment opportunities have been the primary objective of Government's planning of "think big", forestry, manufacturing and other growth strategies.

The NRAC report was delayed by Christmas holidays, the absences of people overseas, and the grinding machinery of the consultative process.

The working party of seven which prepared the report — economists, university and Government people — met 10 times before April 1980.

They reported to the social sciences committee, which reports to the council, which in turn reports to the Minister of Science, who consults the Cabinet committee on science.

The report was politically unpalatable — nobody wants 150,000 people unemployed at this time, an election year.



Alexander Turnbull Library The real and ugly face of unemployment . . . in the 30s and the 80s.

But NRAC is still working towards its publication and hasn't "thought about anything else for the last week".

The report says unemployment is costly, wasteful, unjust, divisive, economically hazardous and threatens our national identity.

It claims that the "real and ugly" face of unemployment concerns 150,000 people now and is likely to rise to 300,000 by 1984-85.

But its first finding is "that the statistical basis on which decisions are being made is flawed and incomplete".

The report has several useful inputs to Government thinking, and, if it had been released when finished, at least would have been discussed.

One of its conclusions is that "the cause of unemployment resides in the institutions and structures of society".

Kerry McDonald, director of the Institute of Economic Research, last week released parts of his criticism of the report, decribing it as "vague, imprecise and superficial".

He did not include part of his initial response, which was that the institute "has skills and experience that could make a productive contribution."

Comment

Editorial

"ABOVE all, unemployment is not statistics, it is people," we are reminded — if we need reminding — by the Government-inspired publication, Jobs and People. Unemployment affects individuals, erodes the quality of life of their families, and has both social and economic consequences for their communities. To determine the truth of this, one need only inquire among those directly affected by a raft of recent incidents: Only about six of 39 employees are likely to be offered jobs when an Upper Hutt engineering company closes to move to Auckland later this year . . . about 70 employees of an Auckland engineering company hope to avoid the dole by buying their employer's factory, which has gone into voluntary liquidation . . . Atlas-Majestic will "shed" 78 more staff to keep in production . . . the Pye electronics factory in Paeroa put 42 people out of work with its closure . . . 10 newly qualified radiographers lost their jobs because the Auckland Hospital Board could not afford to employ them . . . 40 employees became jobless when a Dunedin suit manufacturing business closed.

"Suddenly you're thrown on to the scrapheap. It's rough. I've got a wife and two boys. I've applied for another job but haven't got one yet," said chamberhand Lew Buggs when union officials passed on the formal word that the Southdown freezing works would close.

Unemployment has been blamed for a doubling in the numbers of suicidal people seeking help from the Samaritans in the Wellington region . . . Many unemployed are not seeking medical treatment because they cannot afford doctors' fees.

These are aspects of "the real and ugly face of unemployment" which the working party of the National Research Advisory Council confronted by talking with the unemployed, and coming to appreciate "the legitimacy of the bitterness and anger". They later reported that they found unemployment to be wasteful, costly, economically hazardous for the country, unjust, divisive, and threatening the nation's identity.

Above all, their report talked of a "substantial background of ignorance" about the causes of unemployment, and it emphasised that no-one knows the number of unemployed or the right way to determine the number (which, for constructive purposes, should command more consideration than its claims of 150,000 people unemployed — 8 per cent of the workforce — and that 300,000 people could be jobless by 1985).

But the public will be denied the opportunity to consider such statements, because the report will not be published.

Prime Minister Rob Muldoon described it as a "load of garbage" and a "thoroughly bad report" whose estimates of unemployment "have no validity whatsoever".

Labour Minister Jim Bolger dismissed it as an "alarmist scenario" and said the figures could not be substantiated. He places his confidence in the Government's method of measuring unemployment levels, by counting the number of people "sufficiently concerned about their unemployment" to register with his department.

The resultant figures no doubt are more acceptable to Bolger because they ignore the thousands of people who are seeking jobs but who do not register as unemployed. Some are too young to register. Some are on the domestic purposes benefit, not the dole. Some are reluctant to register, lest they be considered bludgers. Many women, because they are married, do not qualify for the dole. And the departmental figure does not include people on special work, who (the point is arguable) can be considered technically unemployed.

Bolger said as recently as March it was "important" to establish who are the unemployed and how many there are. This underlines what the NRAC report says — we do not know. And our shaky knowledge foundation has implications for the quality of our economic policies, because "the statistical base on which decisions are continually being made is both flawed and incomplete".

One of the aims of the State-sanitised Jobs and People (which Bolger urges us to read) is to "provide a constructive and positive basis for the continuing public discussion on what more needs to be done to deal with New Zealand's employment problem." To make an effective contribution to that debate, the Government should have been prepared to give its own honest assessment of unemployment figures. It should also have provided us with the arguments for and against a number of development options that might create jobs. It did not. It served only present the Government's gro strategy, in election year, as the solution to creating employment opportunities. There will be full employment when the economy is rejuvenated according to the single National formula and when we make better use of the job and training schemes which a beneficent State has provided for the unemployed.

So on one hand, we are expected to put our faith in the Government's expectation that 410,000 new jobs will fortuitously result from its growth strategy. On the other, we must muse on the admission in March by Associate Finance Minister Warren Cooper that the Government would be "less than honest" to claim it had policies that would provide full employment because there is no simple remedy.

The Government seems intent on ensuring we do not untangle the truth from these inconsistencies; and when Bolger said earlier this year he welcomed the increasing debate on the subject provided it was well informed and constructive, we now know what he meant. We are expected to debate what the Government gives us to debate. We are patronised and told we may not read a report (presumably politically embarrassing) because Muldoon labels it "garbage". The same Government cynically trumpets a commitment to protect individual rights and freedoms in justifying its stance on the Springbok tour. But not the right to make up our own minds about the worthiness of the NRAC report on unemployment.

— Bob Edlin

The hard basic facts CAD can't avoid

by Jervis Cleary

ONE of the principal functions of the Civil Aviation Division (CAD) is to undertake what may be necessary to ensure the safe operation of aircraft (S.5(1)(b) Civil Aviation Act 1964).

Flight TE 901 was not operated safely as we know because 257 people on it died at Mt Erebus. It is inescapable, whatever the duties of others, that CAD failed in its duty.

In these circumstances it was not surprising that the Ministry of Transport and the State Services Commission sought a review of CAD's performance.

Mr Justice Mahon, in his report as Royal Commissioner, had found CAD culpable in at least one respect and to have failed in a number of others.

One would have expected the State Services Commission inquirers (Sir Richard Bolt and E A Kennedy) to have been called to answer these questions:

- Why did the division fail?
- How can a repetition of the tragedy be avoided?

Without answers to those questions, the public cannot be assured their flights are safe.

Astonishingly, the terms of reference did not clearly call for answers to either question. In fact, no ordinary students of English could be sure they understood just what the terms did ask.

Unfortunately, the disservice to the public only starts there. The report of Bolt and Kennedy, now released, perhaps relying on this imprecision, is no more than an instrument of unwarranted criticism of the judge's report.

The two retired public servants (one a sometime flying gunner, the other a scribe) seem to have elevated themselves to the position of a court of review of the judge's report.

In the course of their meandering attempt to sideline the Royal Commissioner's findings, they:

- Misquote the commissioner.
- Misunderstand his clear criticism.
- Say they do one thing and then do the opposite.
- Obfuscate where they cannot do any of the above.
- Approve of practices the commissioner condemned.
- Reinterpret the law so as to deny the commissioner the right to find CAD had failed in its function.
- Leap in where no appellate court (let alone angels) would dare venture, namely in making findings of fact contrary to those of the commissioner!
- Call, in answer to unpalatable findings, irrelevant contentions.
- Allege findings which were amply documented were unjustified.
- Imply that the failure of Air New Zealand somehow exonerates CAD.

I will be happy to supply full justification of all these criticisms should they be sought. I trust the following examples are sufficient:

The judge's most important criticism of CAD, and the only one he labelled culpable, is to be found at Page 151, where he says: "I think there was a breach of statutory obligation on the part of the division in that it did not ensure that there was presented at the RCU briefing a topographical map upon which was accurately plotted the track and distance formula for the flight".

In paragraph 6 of their report, Bolt and Kennedy say first that the commissioner said CAD was at fault for failing to ensure the captain was given a topographical map.

They elide the obvious concern of Inspector Chippindale about the same matter (see Pages 25 and 26 of his report). They then note that the judge's concern was with the lack of a plotted track rather than the map and point out Captain Collins got what Chippindale thought was an adequate map on the day of the flight.

Finally, they allow that giving the crew the map at their main briefing would have been preferable, but say it would not have saved the plane because the co-ordinates were changed.

They conclude that the "alleged omission" was probably not a contributing factor to the accident and that in any case CAD did not have to ensure any particular item was supplied to the captain — "that surely was the responsibility of the briefing authority — the airline itself".

If the two gentlemen had understood the report of the commissioner, they would have discovered that CAD was told by Air New Zealand the planes should fly directly over Mt Erebus but for a variety of reasons (principally the incorrect co-ordinates). In fact they flew about 27 miles away.

This was not discovered by the pilots of prior flights, at least partly because of the poor maps and the briefing which led them to expect they went near but not over Mt Erebus.

The change in co-ordinates just before Flight TE 901 put the plane on the official course, that is as advised to CAD by Air New Zealand.

As the judge noted, it is inconceivable that the crew would have deliberately brought their plane down below the top of the mountain had they known they were on a collision course with it. The only way they could have been expected to discover this before taking off was at the briefing. The obvious way to tell them was to give them a map which showed the collision course.

Thus the two SSC reporters' conclusion of fact (a correct map with track plotted at the briefing probably would not have prevented the crash) is clearly wrong.

The way in which Bolt and Kennedy sidle up to this crucial finding of the judge suggest a desire — no doubt unconscious — not to allow any of the commissioner's conclusions even a presumption of correctness.

The statement that the map supplied on the day of the flight was ideal for its purpose can only have been included to derogate from the judge's conclusion.

The reporters call in aid Chippindale's approval of the map as if that supported their criticism, but at Paragraph 2.4 on Page 43 of his report the inspector said the pilots "were not shown on a topographical map that the intended track passed almost directly over the highest point in the area, Mt Erebus (12,450 ft.) Charts were carried . . . but these were very small scale and not available to the crew until . . . the morning of the departure." He then points out the "maps" supplied were positively misleading on this point.

It is clear from this that the crew had no idea that Mt Erebus would be closer than a distant view. Surely the one high point in the area should have been sedulously avoided on scenic flights — how? By provision of appropriate maps.

Next, Bolt and Kennedy conclude that because it was Air New Zealand's responsibility to supply the maps, it was not CAD's.

As the reporters themselves note, the Act under which CAD is set up gives it the function I referred to at the beginning of this article. In carrying out this function, CAD lays down Regulation 77 of the Civil Aviation Regulations which the judge refers to in the following terms (p.151):

"It was the responsibility of the airline to procure compliance by its pilots with regulation 77, which requires a pilot to satisfy the operator that he is familiar with the flight route. It is the responsibility of the division to take reasonable steps to see that the airline is observing regulation 77".

I suggest that our two servants were derelict in their duty in assigning responsibility to Air New Zealand alone. If a regulatory and supervisory authority could shed its responsibility so easily, there would be no point in having it.

CAD exists on the premise that the airline will sometimes fail in its duty and to ensure that failure does not have the fatal results that in fact occurred. It is thus axiomatic that CAD must be watchful, even suspicious.

It should be looking for error and laxness, not expecting sufficiency.

The only question open to Bolt and Kennedy is: Does such a standard as I have proposed or the lower one of "reasonable steps" set by the judge require the CAD to check the maps supplied at the briefing? I would submit there can be no question about it.

- The flights were unique.
- They were to a distant hostile terrain.
- They were sightseeing trips; thus CAD should have been watching for low flying or any stretching of the rules.
- They were new.

There are about 40 pages of regulations covering the processes of weighing and measuring in our lives. About three pages cover the sale of wood, coal and coke. They even specify the size of bags in which these may be sold!

If this is important enough to justify a regulation, I would have thought no-one could quibble with the proposition of the judge that CAD should ensure that the pilots of large, clumsy passenger planes are told exactly where they are going.

Finally, I point out the briefing was the only one, not the "main" one as Bolt and Kennedy put it.

It is a shame of our country that we should have been careless enough to have killed so many people. It will be compounding that shame if we fail to face up to the extent of that carelessness, and take every step to avoid its repetition next time, perhaps a 747 and thus more fatalities.

We are all too accustomed to seeing reports on reports mitigating unpalatable conclusions but the Government's haste to approve and adopt this "review" is disturbing to say the least. Had the politicians at least read the Royal Commissioner's report with concern for the country rather than their jobs, I would have thought it obvious that the only place for this latest report is the rubbish tin. Until a full review of CAD based on Mr Justice Mahon's measured criticism is carried out (rather than an attack on him) the air travellers of this country may be unsafe at any speed.

Jervis Cleary is a Wellington barrister & solicitor

Without word of a lie

For extras . . .

NOT content with the smearing of blood on National Party walls the Halt All Racist Tours organisation has laid a trap for unsuspecting Wellington party nightowls. The organisation is short on funds and cut its costs by disconnecting the Wellington telephone between its two rally campaigns. Its new number used to belong to a sauna parlour — offering scrub baths, an escort service and stimulating company from beautiful girls.

Amax rewarded

AMAX, the big American mining company exploring for gold at Waihi has been the target of local environmentalists' anger. But Amax has just won an environmental award in the United States.

It received the 1981 National Environment Industry Award, sponsored by the Department of the Environment and other interested bodies, for reclamation work done at the Urad molybdenum mine in Wood's Creek Valley, North Colorado.

The mine was closed in 1974 and Amax has spent $7 million reclaiming the valley and regrassing the area.

Ask a silly . . .

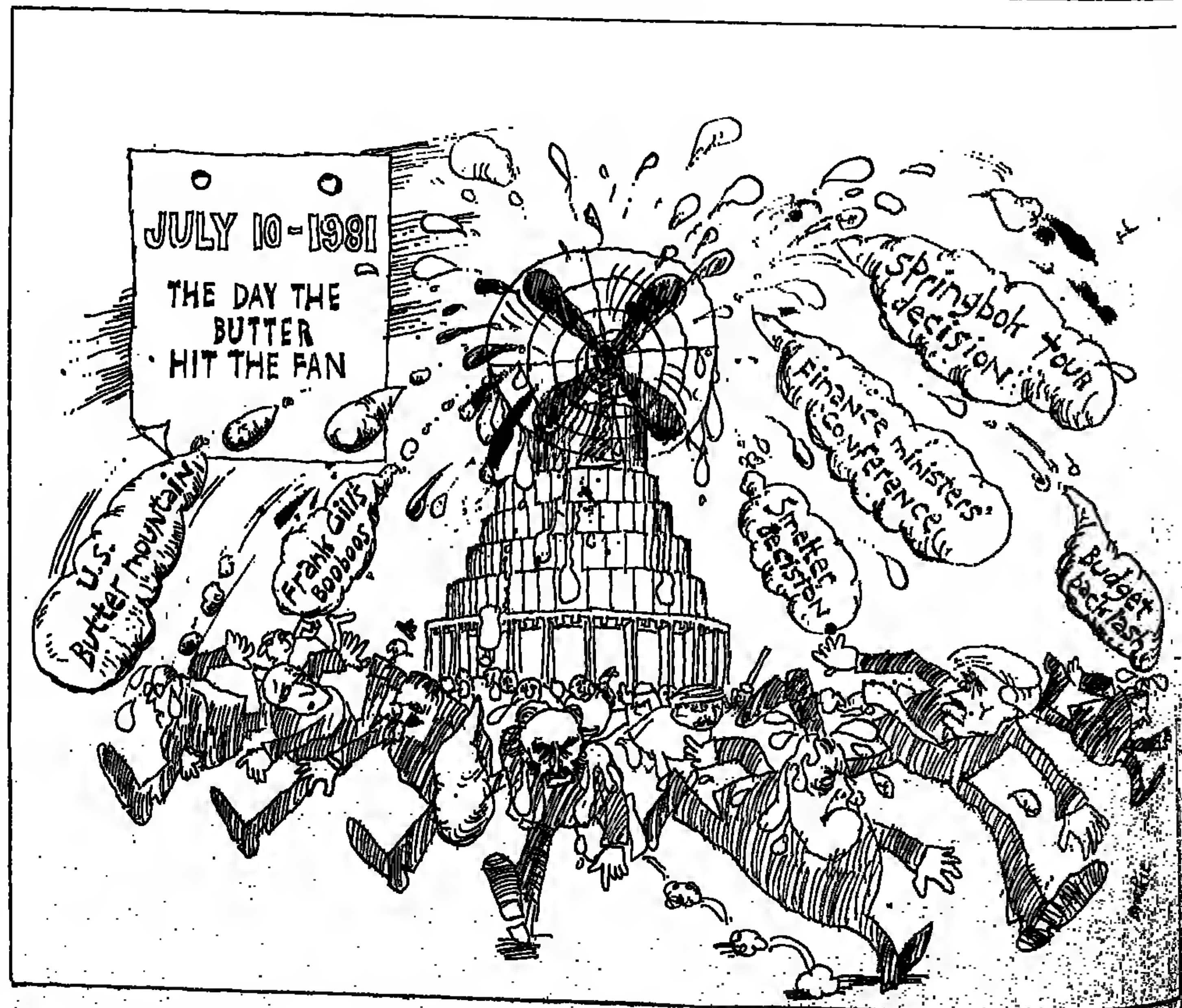
AUCKLAND Maori activist Pat Hohepa may have created a "first" in the records of Wellington's Turnbull Library.

A friend went to the library to do some historical research and noted from the visitors book that Hohepa had been there a day or two earlier.

Hohepa had dutifully filled in required details such as his name, address, and employer.

But under the heading of "research", Hohepa, unlike anyone else before him or since, simply wrote "yes".

Brockie's view



Without word of a lie


March 23, 1981 National Business Review Page 36

Employment

Unemployment report runs into heavy flak

by Ann Taylor

No leak — a deluge

THE "load of garbage" that "leaked" all over the media last week to inform the country that 150,000 people are now unemployed has been in the hands of and made public by several media over the last year.

The Christchurch *Press* summarised the findings of the National Research Advisory Council paper in August last year. Television's *Eyewitness* team used it as background for an October programme on unemployment. *NBR* was rather slow off the mark when it went to went to press on March 23 with a summary of the paper.

The other recent "leak" on the future of the Commission for the Environment was covered by the *New Zealand Herald* in December last year. *NBR* had a crack in March with an article based on the same Cabinet paper which is now inciting Cabinet curiosity and investigations.

Busy tone?

WE all know the line about "I arrived in New Zealand but it was closed". Well, try ringing the Cook Islands after 5pm. All the telephone operators have gone home . . .

For afters . . .

AUSSIES don't like to mince words . . . as we all know.

But this little hors-d'oeuvre from an Alice Springs cafe menu seems remarkably succinct.

If jaded and hungry outbackers find the usual beer, steak and chips; beer, steak and eggs selection not quite to their taste, the bottom line offering should revive them, even in those temperatures . . . "Sex, anytime, $15."

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Letters

'Misleading impression'

THE article headed "Producer board gets in on packaged liquid boom" in your issue of May 18 1981 calls for comment. There are some significant factual inaccuracies which give a misleading impression.

The article fails to grasp the essential difference between the Tetra Pak and the Pure Pak cartons. The former, which is aseptic and intended for long-life products, is considerably more expensive than the Pure Pak carton which is better suited to short-life products.

Further, in the case of milk, the UHT product for which Tetra Paks are used is itself more expensive than the ordinary pasteurised milk to which Pure Poks ore suited.

It is because of its high price that UHT milk in Tetra Pak cartons has been opproved for domestic sale by the Government, as there would be little competition with white bottled milk.

On the other hand, packing of fresh white milk in Pure Pak cartons would be directly competitive with the present bottle system and you are no doubt aware from stated policy that there is no intention to erode that system.

This policy is not specific to the Dairy Board, ond in fact the Canterbury Dairy Farmers' milk station in Christchurch is establishing a plant, and another in the lower North Island is being mooted.

Apart from the restriction on packing fresh white milk in cartons, pockers of liquid products are free to choose whatever medium they prefer. Thus the inference that the Government is supporting the introduction of Tetra Pak by producer boards has no relevance. As an example, the Auckland Milk Corporation plans to adopt for a UHT product a plastic pack different from either Pure Pak or Tetra Pak.

The orticle made the point that UEB Industries was first into the cartoning business with Pure Pak cartons but the Government prevented UEB from selling them for six years for flavoured milk packaging.

It may interest you to know that Tetra Pak made aeveral approaches during the 1960s to package milk and these met a similar fnte.

Furthermore, the conditions on import licences have only reloted to the sale of white milk on the New Zealand market. Thus the suggestion that Government policy waa flouted by the Dairy Board has no basis in fact and there was no retrospective change in the rules.

I hope these comments put a more accurate perspective on the points made in the article.

K R Allen
Parliamentary Under-Secretary to the Minister of Trade and Industry.

WE have covered the respective merits of Pure Pak and Tetra Pak cartons in previous articles. We acknowledge that the restrictions apply only to white milk sales on the domestic market, and not to sales of cartoned flavoured milk.

The Milk Act makes no distinction between white milk in Pure Pak cartons and white milk in Tetra Pak cartons; nor does it distinguish between fresh white milk and UHT treated white milk.

According to Government policy, white milk was not to be sold within New Zealand in cartons — but it was sold in Tetra Pak cartons on Great Barrier Island, and we were informed by departmental sources that the rules were later changed to allow those sales.

The department has now announced that white milk in Tetra Paks may be sold throughout New Zealand, but the restriction on the sale of white milk in competing Pure Pak still holds. — Editor.

Spelling it out to Berryman

TO SWAY the opinion of your reporter Warren Berryman from his fiercely-held conviction that the Doiry Board is scheming to take over the marketing of white milk on the local market would, I fear, require rather more than a mere restatement of the facts, which have already been mode known to him.

But even leaving aside the general imputation in his article in loat week's NBR that the Dairy Board is, in collusion with AHI, planning to fleece the New Zealand consumer — which is arrant nonsense — Mr Berryman has made even more errors of fact than usual in hia essays on the subject.

The following points need to be made:

(1) If UHT white milk is to be sold in the domestic market it is the statutory body responsible for supplying white milk in New Zesland, the New Zealand Milk Board, which will undertake this task. The Dairy Board may — only "may" because it is yet to be asked — pack it.

(2) Speculation on the price of UHT milk is just that. The Milk Board will set the price but to the best of our knowledge bas yet to do so. The Dairy Board will, if required, process town milk for a processing fee equating that of the processing input cost for its own exports. Any margin between this and the consumer price will presumably cover internal distribution; it will certainly not fill Dairy Board coffers.

(3) The licence to import a Tetra Pak machine was not given in order that Zap could be exported. The initial objective was the export of UHT white milk. Nevertheless through the development of Zap on the local market an export trade for Zap has been fostered.

(4) UHT white milk is supplied to the tiny population of Great Barrier Island (380 people) with the knowledge and approval of the Milk Board who could not otherwise provide the ialanders with fresh milk. Sales of the product are handled by the distributor approved by the Milk Board, Anchor Distributors. Nobody "flouted" Trade and Industry requirements.

(5) Anchor Distributors is oppointed by the Milk Board — not the Dairy Board as the article suggested — to distribute UHT white milk to ships, and ships' provedores. It is unlikely that the Milk Board will use the same channela for UHT supplies to the domestic market but if it does it will be as a Milk Board distributor — not a Dairy Board distributor.

(6) Mr Berryman persistently spells Zap incorrectly. One is forced to make the assumption thot: (a) he does it deliberately, which at the least is petty from anyone over the age of consent; or (b) he has difficulty in spelling small words.

All of the above information has either been previously covered by correspondence or would be readily available to a sub-editor wishing to check the accuracy of copy presented for publication.

N H Martin,
Manager,
Dairy Industry Information Services.

(1) True, the Milk Board has the statutory responsibility for supplying white milk domestically, but (as noted in NBR on May 18) the Dairy Board and town milk industry propose a joint venture to market milk products. The Dairy Board owns the Tetra Pak machine, which is being used not only to pack Zap and white UHT milk, but also fruit juice.

(2) Trade and Industry officiala tell us the department plays o role in setting prices for UHT white milk in Tetra Pak cartons. And NBR has a copy of o letter from Minister Lance Adams-Schneider to Pure Pak which states that prices were "deliberately" set to avoid any erosion of bottled milk sales. We obtained our prices from the Milk Board.

(3) Zap was first sold domestically to test the market. The Dairy Board said it was only a test-marketing exercise. Then Zap began to be sold throughout the country.

(4) This is covered in our answer to Under-Secretary Allen (first column).

(5) The point is that the Dairy Board owns the Tetra Pak machine, and increased throughput presumably benefits the Dairy Board.

(6) After untangling his way through the carton issue, Berryman finished up with blurred vision which results in mis-spellings (he's not too hot in the spelling department at the best of times). — Editor.

Offensive to all sexes?

THE advertising material you carry is generally inoffensive. However, I must protest at the *Reader's Digest* advertisement (*NBR*, June 29, Page 10). It is particularly offensive to women, and incidentally to men.

To tack the phrase "And incidentally, pick up 551,000 aspiring adult women and teenage readers as a bonus carrot" at the very end of the wordy advertisement is bad enough but the content of the few words is derogatory in so many ways. The use of the word "pick up", likening women to carrots . . . and I was always under the impression that a woman was an adult without having to say so.

And, of course, mentioning the not-so-expensive product, naturally, leads the discussion round to women.

Men, too, are ridiculed. They are likened to stubborn (and stupid?) donkeys which none the less do eat carrots.

I would like to see all your advertising up to the same high standards as your journalism.

Roblo Wilkins
Portobello

Politics

Forget the conflagration, fight the brushfires

by Colin James

FOR reasons I am not at liberty to disclose, the $100-a-plate Jones dinners have not been accepted in some electorates and local National organisations have raised equivalent campaign contributions in other ways.

This does not reflect on the quality of the Jones-boys' after-dinner entertainment.

Bob's acerbic and brutal wit has livened the torpor of New Zealand politics with a verve those other-side-of-the-fence editors of *Double-Standard* Wellington lamppost posters (dedicated to on-the-bone, funny libel of prominent Nationalists and other conservatives) would applaud.

Normon's short-back-and-sides knockabout epithets are very funny the first few times — until it dawns thot he means them (as it dawned on international statesman Brian Talboys trying to keep the peace when Norman let fly on the Springboks at a party regional conference in Dunedin in May).

And Dall is still a curiosity in a party which does not lightly forgive an upstart who wins with a thumping margin a hopeless seat it has palmed him off with — and who, even more indecent, chooses to step off a promotion ladder and a junior whip's pay margin on a point of principle.

The three have been doing their bit in the George Chapman memorial election drive with, apparently, fair skill. So giving them up was no mean sacrifice.

So, too, I suspect, was giving up the chance to pay $100. Which leads me to postulate that the chance to pay $200 would have been even more attractive. In days of flash-flood inflation, $100 is ordinary bloke stuff.

Which leads me to a confident post-prediction for the Budget (which, being last Thursday night, came after this column went to the press): that it did not contain an ingenious scheme whereby the Jones-clappers could have appeared to pay $200-a-plate while actually paying less than $100.

This ingenious device could be yours if you lived in Socred British Columbia.

It's o sort of A minus B theorem.

British Columbia wants political parties to get ahead. And why not? Social Credit stands for democracy.

So the dedicated BC democrat out for a good time in the noble interests of party advancement is encouraged by the taxpayer.

Take a $200-a-plate dinner (and they do, I was assured last week by a vigorous young BC Socred electorate chairman). Ten dollars goes for the food, say. The rest counts as a donation.

The first $100 qualifies for a 75 per cent tax credit: so you pay in effect $25. The remaining $90 qualifies for a 50 per cent tax credit: so you pay in effect $45. Total $80.

For tax reform, it is nearly as good as driving the company car on election day. Beside it, the Planning Council's "agenda for tax reform" booklet takes on the brilliance of pink blancmange.

That document confirms by its very slimness the paucity of preparatory work done by the Government for tax reform.

As I indicated here a few weeks back, the Government could have used the highly favourable climate for reform of the past 2½ years to assemble detailed background information on the impact of the various elements of the present system and their inter-relationship, but has not. It could have, but has not, fully evaluated options for restructuring.

If that work had been done, the Planning Council (sitting snug in the Treasury building, with informal, and to some extent formal, access to Treasury thinking) could have reviewed it and made positive recommendations as to which mix the Government should go for.

Instead, it was reduced to four pages of general banalities and banal generalities, a four-page recommendation for a task force to report by mid-1982 and a three-page series of thumb noil sketches of olternotive tax systems.

The only "hard" item of interest wos o (low?) estimote of the cost of investment and export tax incentives: $300 million.

The council gave some credit to the Government for "much work that is already underway"; but other references are an indictment of inactivity.

Quote: ". . . how much can be done (by the tosk force) will be constrained by the limited information currently available . . ."

Quote: "It is recognised that all the intricacies of the problem cannot be fully assessed within 12 months."

And its "list of items for study" includes some items one would have thought the Treasury would have been able to pop out of its databank at a moment's notice:

Item: "Ascertain by total survey of listed companies and pilot survey of private companies what taxes are being paid on income as determined by current occounting practice and the reasons for the percentage of tax to net income differing from the legal tax rate of 45 per cent."

Item: "Determine the extent to which support through the tax system to companies, farmers, traders and partnerships is cost-effective and achieving its objectives."

Item: "Assess whether existing deductions, exemptions and rebates intended to provide income support relative to family and household circumstances achieve their objectives."

Item: "Evaluate how much existing taxes cost to collect."

No wonder the Government has been diverting attention from real tax reform with a wild goose chase after a wage-tax trade-off with the trade unions.

The trade unions' job is to improve wages and conditions for members, not design tax systems — just as the rugby union's job is to arrange the best conditions and matches it can for rugby players, not (as a Cabinet minister moaned last week) decide important issues of foreign policy (or general sports policy, for that matter).

Given the long-felt and expressed "pressing" need for tax reform (the council's second-thoughts understatement — the need is urgent), the Government could have had its bureaucrats beavering away on the sort of data on which full tax reform could have been legislated for this year.

But this Government has a brushfire mentality. While a

Bernie Galvin . . . an empty-handed Treasury.

conflagration rages just beyond the back fence, it is busy noisily stamping out (and in some cases lighting) brushfires in the backyard.

Even the growth strategy is looking increasingly like a collection of unrelated goodies gratefully grabbed as they come within the Government's short focus — rather than interlocking bits of a jig-saw depiction of the vista to the horizon.

Thus, there is reconsideration of all-methanol fuels; thus there is an "I think" comment from Bill Birch that the second smelter will go ahead; thus Ian Shearer unsuspectingly sprays his own Cabinet mates with grapeshot by talking about smelter jobs costing "a staggering $1.3 million each".

But short-focus busy-ness has its merits. If luck holds and the conflagration does not get too close, brushfires keep our eyes — and voting minds — off it.

Last week was a good week for brushfires:

- A Cabinet minister's chauffeur drove through protesters and the Government said drivers "are under orders not to stop on occasions such as that."
- A recycled (for the fourth time, including an *NBR* report in March) leak had us arguing obout whether unemployment was "150,000" — it is, of course, much higher in real terms, since net immigration (which means jobs gone) has been about that over the past five years — or the Government's glossy *Jobs and People* figure of 47,000.
- And we had o supposed stop-the-tour message from on high which told us what splendid chaps white South Africans were really, since some of them (though it was carefully omitted, the ones now in power took a different stance) fought with us against Nazis (that is, people who took race discrimination to its ultimate, horrible conclusion). And "afraid" Bill Rowling mealy-mouthed his party's "cancellation" policy into "postponement".

Hart was wrong. Its strategy has failed. The 60-40 call-off prediction to me a couple of weeks ago by a leading member misunderstood the true politics of the tour.

Those politics can be seen in the reaching out of ordinary National Party members in country and suburban halls for Ben Couch.

The guy struck a nerve. Those non-Jones-boys electorates could have charged $200-a-plote for a "Night on the Couch".

Economics

Borrow and boom — or borrow and pray?

by Bob Edlin

"RESTRAINT in wages and incomes today will mean more job opportunities and business success in the future," Finance Minister Rob Muldoon assured us in his 12th Budget.

He sees a rosy future; this is the last of the bad years and — as be told a television interviewer — "we'll probably be trying to restrain a boom next year".

Muldoon obviously sees it as the borrow and boom budget... be could "say with confidence for the first time since 1973 that the future for New Zealand and its people is bright", and the economy was "set for a prosperous future".

It might also be dubbed the borrow and pray budget. The boom remains an article of faith; the borrowing is burgeoning.

Simply, the Budget calls for even greater government spending, a much greater deficit before borrowing, and for the taxman to squeeze every drop from us (wringing more out of smokers, drinkers and travellers, turning to credit-card holders as a fresh source of state revenues, and relying on fiscal drag to effectively increase income taxes).

In a year in which restraint is called for on one hand, the biggest-ever Budget night deficit is provided for on the other. That's the gap between what the Government hopes to raise in revenue, and what it proposes to spend. And Muldoon has increased it by a massive 37 per cent, to $2090 million (or 7.4 per cent of GDP).

Given Government's general inability to meet Budget night targets, it is likely to finish up higher than that.

The means by which more than $2000 million will be borrowed by the state has, obvious implications for the economy generally. But the Budget keeps us in the dark about the Government's borrowing plans and intentions.

In 1979-80, most borrowing was internal and $661 million was raised overseas. Last year, there was a significant switch and overseas borrowing — more than twice as high at $1510 million — was the major source.

Whatever the source of borrowing, inflation will be spurred by the Government's spending more on its own activities, much of it in salaries. As spending is stimulated, there will be pressure on prices.

Muldoon acknowledges the effects of double-digit inflation . . . he says many governments are coming to view that a return to sustainable growth will not be possible until inflation is controlled.

Echoing the warning of the Planning Council's economic monitoring group, he says: "So long as inflation rates remain high, investment patterns will be distorted and long-term investment discouraged in favour of projects with a quick payback." He did not implement the EMG's call for an attack on inflation, which would call for a much smaller deficit before borrowing and for a concerted effort to curb state spending (through cuts in producer subsidies, for example). Rather than action, we have threats.

While Government spending remains high, the private sector is warned it must exercise constraint:-

● There is a threat to reintroduce wage controls ("The Government will act resolutely, if necessary, in the public interest. If this requires the imposition of controls on wages we will face up to that unpleasant eventuality").

● And a threat to control finance institutes ("The Government is determined to maintain a firm grip on the growth rates of the money supply and credit aggregates and, if these begin to accelerate unduly, then appropriate action will be taken. The banks and other financial institutions would do well to bear this warning in mind").

Muldoon had scant room to manoeuvre on the tax front, essentially because his past policies have lifted the deficit before borrowing to record levels. Thus there are no tax concessions. (Muldoon found a scapegoat: "The FOL let me down" he complained).

There was not even a commitment to tax reform, merely an indication that the Government would be "giving careful consideration" to the approach suggested in the Planning Council's recent report and the public debate on it.

The decision not to reduce taxes in effect amounts to a tax increase. With inflation running at 16 per cent, wage and salary rises will quickly elevate workers to higher marginal tax brackets, so that increasing portions of their incomes are taken in taxes.

Income tax remains by far the greatest source of revenue. The Government will take 75.5 per cent of its income from direct taxes this year (0.5 per cent more than the portion taken from wages last year).

The income tax toke is up 17 per cent, to $6200 million. What we don't know is how much will be taken from companies. The company tax collection is falling (it was only 8 per cent of total revenue in 1981), and individuals are carrying an increasingly greater burden (now almost 70 per cent).

Overall, the tax take is up 16.5 per cent, to $8216 million.

Social services and health are the only state sectors to be given spending increases of less than 14 per cent (the figure which the Institute of Economic Research forecasts inflation may fall to this year).

But social service estimates are usually underestimated (governments reason that it's best not to tell us the real figures, because that might give a hint as to what they expect inflation to be, which would be exploited by unions negotiating awards).

The sector to enjoy the greatest increase in its budget allocation is "development of industry" (up 36 per cent to $1085 million). Fuel and power is the greatest beneficiary. The allocation for the Ministry of Energy is up by almost 80 per cent (to $246 million).

Under "land use", (which also, includes the Agriculture and Fisheries, Lands and Survey, Maori Affairs and the Rural Bank), the Forest Service is given the biggest increase — up 31 per cent in net terms to $233 million.

"Other industrial services" (whose allocation is up 30 per cent) includes the Department of Labour. A hefty 45 per cent increase (to $246 million) has been allocated to this department, which employment and training will consume $209 million. That is 86 per cent of the net estimated expenditure of the department.

GOVERNMENT SPENDING
$million

	1981 spending	1982 budgeted	Percent rise in spending
Administration	786	929	18.3
Foreign relations	578	682	18.0
Development & Industry	797	1085	36.1
Education	1292	1475	14.1
Social Services	2590	2924	12.9
Health	1368	1632	13.0
Transportation & Communication	333	435	30.6
Department servicing & miscellaneous investment transactions	991	1194	20.5
	8722	10,256	17.6
Supplementary estimates	—	250	
Miscellaneous financing transactions	411	411	—
	9133	10,917	19.5

Rattling skeletons may well have grave consequences

Diplomatic Correspondent

THE developing reaction of the Government to its Commonwealth critics over the rugby tour issue appears certain to maximise illwill against New Zealand which will endure when the tour itself has long beeo forgotten.

Responsibility for the tactics now emerging lies witb Prime Minister Rob Muldoon, who is rapidly addiog to his reputation as a scrapper ready to enter a brawl no matter how harsh the odds look In the roughhouse.

Last week his approach was termed by a visiting Australian diplomat as a totally cynical one likely to draw admiration for the political oerve it reflecta but also to draw a good deal of resentment from New Zealand's Commonwealth partners.

Skeletons in various Commonwealth national pockets were being rattled by the Prime Minister in retaliation for the racial Insults he believed were directed by black Africa against bis country.

Among them were the records of various African countries on human rights issues; Australia's willingness to drum up greater trade witb South Africa; Britain's double-edged dealing with Nigeria on the one hand and South Africa on the other; and Africa's willingness to go all out for a sports boycott of South Africa while not being prepared to place a trade boycott on the republic.

Protectors of New Zealand's image abroad were quick to point out that so far Muldooo's calculated bull in a china shop act had amounted to little more than threats of action. The distinctioo between threats of action and action itself was important, they said.

But on the assumption (at the time of writing) that the Rugby Union will oot call off the tour before it gets under way, the first of the threats is likely to be called ioto question virtually immediately.

The Commonwealth plaos to transfer its annual finance ministers' meeting to the Bahamas. Auckland won't have the pleasure of the ministers' company and the Government will have to face up to the issue of repudiation of the Gleneagles Agreement and a decision not to attend the Bahamas get together.

There is an implication in the transfer decision which carries an ominous warning for New Zealand. It is: Be warned, if you want to rake over our dirty lineo don't expect us to muzzle either our tongues or our political clout.

A fascinating aspect of Muldoon's actions so far concerns the British Government. The Prime Minister has publicly told of British support for his interpretation of the Gleneagles Agreement. It could follow from this that he would not wish to proceed in a way likely to embarrass this support.

Yet in pursuing the question of a trade boycott on South Africa he brings up the prospect that his friends in Westminster may have to face awkward moments squaring off their relationships with Nigeria and South Africa.

There is little doubt it will be achieved but the man (nation) who provoked the matter is not likely to move up in popularity ratings.

The sports boycott of South Africa was conceived partly because it offered a means of illustrating contempt for South Africa's apartheid policies without hurting in any meaningful way those who supported it.

Realists have regularly said the prospects it would bring about change in the system of apartheid were so slim as to be virtually non-existent.

Internal economic developments, particularly demand for a higher-paid more skilled black work force, were, and are, frequently cited as more likely to force change on the system.

But the sports boycott served us a non-violent and practical means of bringing home to South Africa's white man-in-the-street the depth of international feeling against the political system his rulers enforce.

That such a boycott does not intrude on the realities of commercial life and economic considerations in which political skins can be placed at risk, added to its attractions as a sanction measure to most Commonwealth nations.

About Parliament Buildings MPs consider Muldoon's belligerent stance will be well accepted in the marginal rural and semi-rural constituencies National wants to hold in November. He has shown he knows the skeletons to rattle and his ability to rattle them to effect.

It may be that the jingoistic overtones of us against them and the readiness of rural based communities to accept a Laager-type approach of defiance are helpful in an electoral sense — better to be in power next year to handle the situation whatever it is than in the wilderness of powerless opposition!

But the Nixon-like cynicism of the approach is not likely to be forgotten in Canberra, London, Lagos, Kuala Lumpur, Jakarta and at the United Nations headquarters in New York.

Muldoon has shown himself up this week as willing to interfere with the freedom of his traders — albeit reluctantly — to accept a trade boycott with South Africa. But he has repeated his determination not to interfere with the freedom of his nation's sportsmen.

Most of New Zealand's farmers rate their ability to sell their products where ever at the highest possible price ahead of any sport, be it rugby or ping pong. An electoral achilles heel may be showing.

There is speculatioo the anti-tour groups may force abandonment of the tour at some stage. Muldoon could then claim the people's feeling of dislike for apartheid had shown up as a true reflection of national commitment to multi-racialism.

The skeleton rattling now under way, however, is likely to be remembered long after such a step. Resentments and bitterness engendered by the path the Prime Minister has chosen to follow in reaction to Commonwealth critics will not dissipate quickly no matter how smooth an effort Wellington's diplomats mount to minimise the damage.

Exchange rates

AS at July 9, NZ dollar sells at:

Britain	.4448
US	.8358
Canada	1.0083
Australia	.7387
Fiji	.7316
Austria	14.49
Belgium	33.67
China	1.4802
Denmark	6.4217
France	4.8553
Greece	50.29
Hong Kong	4.7342
India	7.4008
Ireland	.5606
Italy	1019.68
Japan	190.91
Malaysia	1.9598
Netherlands	2.2059
New Caledonia and Tahiti	88.51
Norway	5.0737
Pakistan	8.1961
Portugal	53.84
Singapore	1.8098
South Africa	.7583
Spain	81.57
Sweden	4.3548
Switzerland	1.7555
West Germany	2.0552
Western Samoa	.8859

A whine about wine: what about the shareholders?

by Klaus Sorensen

JUST as it looked set to lose its sparkle, the wine industry is back in tbe spotlight.

Tbis competitive industry is already trying to cope with the oew tariff structure oo imported wine as well as more stringent Health Department standards — and a major market swing to packaged medium white wines.

A shortage of grapes has hampered attempts to meet the popular demand, and has led smaller manufacturers like Penfolds to seek mergers with the larger companies, which generally have a large number of contract growers to help them through grape shortages.

But now it seems tbe wine industry is in for some sttcotion from the liquor Industry.

After weeks of rumours in Auckland, Cooks Wine last week unofficially revealed that it believes McWilliams Industries is trying to buy a 24.9 per cent shareholding in the Te Kauwhata winemaker from the largest shareholder, CBA Finance Holdings.

Cooks has already withstood bids from Rothmaos (which owns Corbans) and Penfolds.

But it seems Cooks is worried that its latest suitor will find It is a case of "third time lucky".

Not only Is McWilliams a competing winemaker; it has liquor industry links, and these are apparently causing considerable anxiety in the Cooks boardroom.

Cooks is also unhappy that CBA Finance (formerly Transvision) is keen to get rid of its 30 per cent shareholding after it assured the examiner of commercial practices In 1979 that It was intending to be a long-term holder.

But then CBA Finance Holdings was a more diversified and entrepreneurial animal In those Transvision days, and while Cooks might feel the company's decision to quit its wine investment is ungentlemanly, it is a fact of business life that control of a company can change at the sight of a fat cheque-book.

That's why Transvision Holdings became a 51 per cent subsidiary of the Commercial Bank of Australia.

Cooks directors received warning that the CBA Finance holding in their company could be up for sale when CBA announced plans to float the televisioo rental activities — the implication being that the bank was interested in financing, not television rental, or wine for that matter.

But tbe Cooks directors' prime concern is McWilliams.

Most think of the local McWilliams operation as a subsidiary of the Australian concern of the same name, but the local company's list of shareholders reads like a *Who's Who* of the liquor trade.

McWilliams Australia has the largest shareholding (33.5 per cent), followed by Ballins Industries (28.7), Lion Breweries (24.1), Dominion Breweries (10.3), Campbell and Ehreofried (1.9) and Hughes and Cossar (1.4).

With a lioe-up like that, no wonder "poor little Cooks Wine" is feeling threatened.

But it seems Cooks has learnt a lot from its two previous skirmishes, and is taking an active role in this fight.

But while Cooks has been active behiod the scenes, it is saying oothing publicly. So It is more a case of "poor little Cooks Wine shareholders".

The owners of the company are in the dark about what is going on and whether they should take advaotage of the 20c rise in the company's share price in recent weeks.

As usual in these situations, there are two markets — one informed, the other at a loss to know what to make of all the veiled suggestions, and speculation in the daily papers.

Cooks public relations consultants were on the job as early as Friday July 3, talking to the press, and generally trying to draw attention to the McWilliams plans.

A measure of their success was that by the middle of last week the sharemarket and the dailies were full of speculation, even though neither Cooks oor McWilliams had said anything publicly.

One Auckland paper covered a range of popular scuttle-butt in a story headlined "Cooks will fight bid for control by McWilliams".

No doubt that headline was equally surprisiog to both the Stock Exchange Association, and to those Cooks shareholders not privy to market talk.

Though it was not attributed to Cooks, the story said the wine compaoy Intended to fight because It did not believe It and McWilliams are compatible.

It went on to say that Cooks did oot believe a merger would be In the best interests of itself or Its consumers.

And that is where there seems to be some confusion.

Where a listed public company is concerned the prime interest to be considered Is that of the shareholders.

That interest could have been best served by the Cooks directors notifying the Stock Exchange, as soon as they had evidence that another wine company was thinkiog of buying a major shareholding, that discussions were taking place which could affect the value of the shares.

Cooks shareholders then would have been warned at least to hold on to their shares.

Instead, Cooks shareholders were left with no more than a number of "suggestions" in the papers.

The Auckland paper said Cooks "is expected to use similar tactics to those which defeated the Corbans and Penfolds takeover attempts, stressing to the examiner that it is not in the interests of the company, the growers or the public".

Not a bad bit of speculation, particularly as nobody but Cooks would know what sort of defence it intended to use.

Another suggestion was that "McWilliams hopes to use its shareholding as a springboard to get control of Cooks, probably by using affiliates to buy sufficient additional shares to get a majority shareholding".

But neither McWilliams nor its alleged "affiliates" would be likely to tell the papers how it intended to control Cooks — so that informatioo must be regarded as pure conjecture, and rather irresponsible at that.

Theory No 3 is that McWilliams is eyeing Cooks management team and its "efficiency winery". But the paper said that because all Cooks growers signed a contract last year giving them the right to opt out of all contracts in the event of a takeover, "it would be possible for Cooks management team to leave the company and start a new one, in partnership with their growers in Hawkes Bay".

Again, this tends to overlook the fact that the shareholders are the proprietors of the company and that the executives owe their loyalty to them.

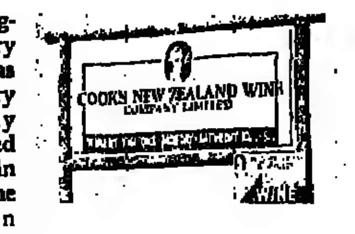
The paper seems to be suggesting that if McWilliams were successful in gaining effective control of Cooks (be it 24.9 per cent, 30 per cent or 51 per cent) the Cooks executives would simply leave the company — and the remaining ordinary shareholders — to set up a new company which would compete with Cooks New Zealand Wine Co — using Cooks former suppliers.

Charming.

The newspaper also suggested that "the Industry believes McWilliams move has been spurred by its brewery shareholders, especially Ballins, which is dissatisfied with the company's drop in market share," and that "the brewery shareholding in McWilliams and its insistence on special trading rights with the company is one reason that Cooks has no wish to merge."

Not bad, considering Cooks had yet to tell the exchange (and therefore its small shareholders) about the manoeuverings and its objections to them.

NBR understands the Cooks directors were "notified" (whether officially or unofficially is unclear) of McWilliams interest in the CBA Finance shareholding more than a week ago, and it seems fundamental that they should act promptly



to inform shareholders of the interest.

But it seems even more fundamental that the directors and executives of a company should seek to get the best deal for shareholders. Where there is a bidder or potential bidder they should not act to discourage that bidder until the terms of the offer are made known.

In times of high inflation, shareholders are always prepared to consider an offer that involves a useful premium over the market price — and they have the right to make the decision.

Finance

The business week

Alliance Textiles Ltd will pay a dividend at the annual rate of 12 per cent for the six months ended July 31, 1981 to holders of redeemable specified preference shares.

Consolidated Minerals and Fletcher Challenge Ltd have entered into a joint venture to investigate peat wax deposits on the Chatham Islands. **Fletcher Challenge** will have a 51 per cent interest, **Consolidated Minerals** retains 49 per cent. Subject to Government approval **Consolidated Minerals** has entered into a joint venture with **Mining Houses of Australia Ltd** for rutile exploitation at Transit Beach. **Consolidated Minerals** will make a 1-for-4 share issue to shareholders on the register at 3 July.

Australian Paper Manufacturers Ltd has received 91.2 per cent acceptances for its takeover offer for **Containers Ltd** and is entitled to 92.5 per cent of the 5 per cent preference shares and 94.1 per cent of the 6.5 per cent preference shares. The offer is declared free from conditions on June 10, 1981 and will close on July 8, 1981 for the ordinary shares, July 9 for the 5 per cent preference shares and July 10 for the 6.5 per cent preference shares.

Dominion Breweries Ltd: unaudited group profit for year ended March 31, including group earnings in associated companies, was $9.602 million, an increase of 46.1 per cent. Final dividend is 11.5 per cent, 6.5 per cent tax-free. A 1-for-5 bonus issue is also recommended.

Henderson and Pollard: after-tax profit for the year ended April 30, was $3,122,297 (last year $2,306,475). A final dividend of 15 per cent is recommended, making a total for the year of 20 per cent (last year, adjusted, 16.4 per cent), payable on August 11. A 1-for-6 bonus issue is proposed and a share split into two 50 cent shares.

McConnell Dowell Ltd has acquired a substantial interest in **Hawkins Holdings Ltd. Hawkins** directors recommended a change of the company articles increasing the maximum number of directors from seven to nine.

Property Securities Ltd received a takeover offer from **New Zealand United Corporation Ltd. Property Securities** directors have commissioned an independent valuation of the company's assets and shares. When the results are known, they will make a recommendation.

Schofield Holdings: after-tax profit was $792,201. A final dividend of 9 per cent is recommended, making 14 per cent for the year (last year 12½ per cent).

Waitaki NZ Refrigerating Ltd: Interim dividend to ordinary shareholders of 9 per cent (last year 8 per cent) is payable on July 30, 4.5 cents tax-free.

John Webster and Co Ltd: Tax-paid profit for the year ended March 31 was $300,307 (last year $221,425). A final dividend of 9 per cent, making a total of 15 per cent for the year (last year 14 per cent), will be payable on August 27.

Wrightson NMA Ltd completed acquisition of a 20 per cent shareholding in Southland Frozen Meat and said that it had no intention of going above that level. In an offmarket transaction, the **Primary Producers Co-operative Society** shareholding in **SFM** was purchased by **Wrightson NMA,** with full agreement of the **SFM** board.

Economic indicators

THE current account deficit on overseas transactions for May was $39 million, compared with $52 million in May 1980. For the year ended May 1981 the current account deficit stood at $780 million, compared with $793 million, for the year to April 1981 and $560 million in the year to May 1980.

DAIRY receipts also benefited from higher international market prices and another season of high milk production. But manufactured exports were boosted artificially by the receipt of some of the proceeds of an Air New Zealand sale of two aircraft. Imports rose by 20 per cent to $486 million, giving a surplus on trade transactions of $137 million.

THE number of industrial stoppages for the March quarter showed a marked rise particularly in February. Of a total of 78 stoppages with a sum duration of 300 days, 39 happened in February, and in total they lasted 143 working days. Over the three months 32,517 workers were involved in stoppages and 117,428 working days were lost.

PRELIMINARY counts from the 1981 census show a dramatic population increase in Manukau City. The gain in population is 19,108, a 13.7 per cent jump to a total population of 158,167. The Manukau city is now the second largest in the country in terms of population. In 1976 it ranked fourth behind Christchurch, Auckland and Wellington cities proper — not to be confused with overall urban areas.

From Page 3

will affect companies like Rothmans, but historically higher prices only reduce consumption temporarily.

The increases in beer prices might also be expected to have a negative effect on the brewers, but a more flexible pricing policy evidenced over the past year, should keep brewery profits intact.

And there could be a bonus element in the greater duties on higher-alcohol beers, as this will apply to the Australian imports which have made life difficult for local brewers.

With benefits for farming, building and fishing, the country's largest company — Fletcher Challenge Ltd — might be considered a major beneficiary.

But according to FCL chairman Ron Trotter, "I didn't quite see it that way."

Trotter told *NBR* the references to forestry industry incentives were difficult to comment on because of their vagueness, but he believes it would be unfair to single out forestry if export incentives are to be altered.

It was a "stand-still Budget" and the high deficit "is still worrying," according to Trotter. He believes the impact of the housing benefits on FCL would be only moderate as they relate more to house-owners than to housing starts, and Trotter regards the increases in Rural Bank lending as much more significant.

"They are a good thing — there is no doubt about that — because they will maintain the general development momentum in farming.

"We neglected farming for a decade and now the industry is moving ahead very well — we are maintaining confidence and morale which is terribly important after a belt tightening in the 1970s.

"Farmers are only just getting back their confidence to reinvest."

But one aspect of the Budget had Trotter perplexed — the imposition of a 5 cents a transaction duty on credit card transactions.

As the owner of the American Express credit card in New Zealand, the move was "a discouragement to a much more efficient funds transfer system" and Trotter said he couldn't see why the duty should be linked to cheques — "as the two just don't relate.

"It's going to be an expensive tax to collect too," he said.

For industry generally, the Budget provided little in the way of specifics apart from an increase in car depreciation allowances to 11 per cent, of the land tax decision and energy investment moves.

Rather, the message for manufacturers lay in the general statements surrounding the detailed new moves.

Perhaps the most important is the Government's continued public stance on market forces — the Quigley syndrome. Said Muldoon: ". . . market forces must be allowed to operate more freely."

To this end, Muldoon spelt out clearly that the import licensing system is not a sacrosanct protective device.

"When taking decisions on industry plans arising from the industry studies programme, and on protection issues generally, the Government is prepared to replace import licensing gradually with tariff-based protection while maintaining by world standards a reasonable level of protection."

Muldoon instanced the recent decisions on the tobacco industry and added: "The distortions which exist in the protective structure will be eliminated by moving progressively to a more uniform level of protection." (He promised, however, that such changes would not be disruptive.)

This mandate has obviously been influenced by the proposed closer economic relationship with Australia although murmurings against licensing have been evident for several years. Certainly, the Australians have long regarded New Zealand's licensing system as iniquitous and Muldoon used the Budget as an opportunity to declare "a broad outline of a closer economic relationship has now been agreed, and negotiations on a number of specific issues are continuing."

Last year Muldoon said in his Budget: "Certain problems (over CER) have been identified. I make it clear that if these cannot be surmounted this exercise will have to be abandoned, a result which I would regret."

The CER mood has thus become more positive.

Muldoon also continued recent indications that the "Think Big" strategy is not meant to overshadow or override smaller businesses, which provide the bulk of the nation's commercial activity.

Stock Exchange weekly review

FOR WEEK FRIDAY JULY 3 TO THURSDAY JULY 9

	Last sale	Week's high	Week's low	Turnover
Airwork, 50c	125	125	125	5500
6% pr	—	—	—	0
Alex G K N	385	385	375	800
Alcan, 50c	172	172	170	5000
A H I	285	265	260	33800
Alliance, 50c	125	125	125	60000
12% conv pr	115	116	115	700
Allflex	128	128	124	13600
Allied Farmers	940	345	340	7600
12% conv pr	360	360	360	600
Alloy Steel	225	—	—	0
A M Bisley, 50c	255	255	255	2000
Ampol Pet, 50c	247	—	—	0
A Beaven	150	150	145	16700
11.5% conv pr	130	130	130	2600
16 con pref	142	142	130	3500
Andas Group	150	150	150	1100
5-6.5% pr	121	—	—	0
12% conv pr	130	130	130	400
ANZ Banking Group	382	383	360	26600
A Wright	370	—	—	0
'A' 5-7.5% pr	60	...	—	0
'B' 5.6% pr	60	...	...	0
A Barnett	910	310	300	1700
A Ellis	46	46	45	7100
Ashby Bergh	380	380	380	400
A B Cables	320	320	320	3600
Atlas, 50c	46	48	45	21800
10% conv pr	48	46	45	6100
Auck Gas	560	560	550	700
Aurora, 50c	213	213	212	600
10% conv pr	260	...	...	0
14% conv nte	160	160	160	500
A C I	270	...	...	0
Autocrat Sanyo	262	262	292	100
Baillie, 50c	64	64	64	500
Bellina, 50c	126	126	126	24400
11% conv pr	112	112	110	1900
Bank NSW	525	535	525	400
Beach Petr, 50c	445	445	445	500
Bing Harris, 50c	86	90	88	5500
B N Z Finance	360	370	370	1000
Bridgevale Mining	136	144	125	57600
Brierley, 50c	467	470	460	35400
15.75% spec pr	255	...	...	0
Bos, 50c	72	72	71	4000
B H P, 200c	2500	2500	2460	2500
Brother, 50c	63	..	—	0
Bunting, 50c	145	145	145	6400
C P O	360	364	360	15000
10% conv pr	360	...	...	0
C F M	355	355	355	600
12% conv pr	250	...	...	0
Cent Flour	220	...	...	0
Cent Timber	378	378	375	3400
12% conv deb	375	375	365	500
Capital Radio, 25c	120	120	120	1200
Capital Life, 50c	110	...	—	0
Carbonic Ice	300	300	300	200
Carter Holt	450	460	445	3200
CBA Finance, 50c	320	335	320	2100
CCL	270	280	270	12200
Ceramco	305	310	285	53200
12% conv pr	170	170	170	500
15% red spec pr	400	—	—	0
Chenery	375	375	370	2700
Ch'ch Gas	320	—	...	0
Ch'ch Press	370	...	...	0
City Realties, 10c	46	50	46	3300
Clyde Group	120	120	120	2000
12% conv pr	115	115	115	300
Collingwood, 50c	55	57	52	17400
13% conv pr	50	50	50	18300
Col Motor	325	325	310	2400
Colyer Watson	125	130	125	3300
Comalco, 50c	270	270	270	700
Commend	175	175	175	4600
Con Metal, 50c	167	167	165	6400
conv pr	200	200	200	1500
Con Minerals, 4c	16	23	18	143340
Cooks Wine	140	140	136	54100
Cory-Wright	250	250	240	21600
12% conv pr	225	225	165	11650
16.25% conv pr	200	200	200	5500
Crown Consolidated	216	225	212	14700
11% conv pr	210	210	210	200
C S R	600	1025	600	600
Dalgety (NZ)	280	265	280	28100
Dalhoff & King, 50c	65	65	60	3100
Deenes	170	170	170	2100
D I C	220	220	220	6900
12% conv pr	165	170	165	300
Dingwall & Paulger	350	350	335	2600
D Mcl Wallace, 50c	102	102	86	36600
12% conv nte	80	83	75	1300
11% nte '82	105	105	105	2600
Dom Brew, 50c	140	146	130	120300
5% pref	120	—	...	0
11% conv pr	64	64	64	1500
Donaghy's	300	300	900	4600
12% conv pr	340	—	...	0
D R G, 50c	115	115	115	500
Dunlop (NZ)	405	405	400	3000
4.5% pr	55	—	—	0
Ebbett	170	—	...	0
Ebos, 50c	127	127	125	6200
E Lichtenstein, 50c	355	385	350	2500
Emperor Mines, 10c	176	—	—	0
Endeavour	210	210	205	4800
E Adams	225	225	225	1000
Europa pref nt	62	62	62	1800
F T C, 50c	127	136	125	190100
11% conv pr	113	113	112	6200
F Walmsk, 50c	85	85	65	2900
Feltex, 50c	166	170	165	56600
5% pr	175	...	—	0
18% pr	170	170	170	4800
Firestone NZ	152	152	152	5000
Fisher & Paykel	300	300	297	37800
Fletcher-Challenge	258	268	250	254200
15% conv pr	102	104	102	12700
18% conv pr	485	435	435	16100
Fountain Corp	80	80	75	5500
Foveaux Radio	88	—	—	0
Freightways, 50c	200	202	188	132600
10% conv pr	155	166	155	4400
Gear Meat	58	88	58	2600
11.5% conv pr	55	...	—	0
G Court	170	170	170	3300
G J Coles, 60c	400	—	—	0
Golden Bay, 50c	70	72	70	26000
Goodman Group	485	485	480	16150
14% conv pr	400	—	—	0
Grosvenor Props.	80	—	—	0
Hallenstein	280	280	280	4200
Hauraki Enterprises, 25c	128	136	128	5400

	Last sale	Week's high	Week's low	Turnover
Hawkins, 50c	112	114	112	12200
6.5% pr	26	—	...	0
H B Farmers	290	290	260	1500
13% conv pr	160	185	160	700
Healing	275	262	275	20600
12% conv pr	260	260	260	13000
H Pollard	520	—	--	0
10% conv pr	400	—	...	0
Henry Berry, 50c	162	185	162	6400
Holeproof	500	500	500	150
Hume Industries	162	162	162	200
5-7.5% pt pr	40	--	--	0
I C I (NZ)	230	230	230	2800
Ind Broadcasting	105	—	...	0
Independent News	230	230	230	3000
Ind Chem, 50c	225	—	...	0
I Watkins-Dow, 50c	250	255	250	2100
James Smith, 50c	--	--	—	0
14% conv pr	60	—	--	0
12% conv pr	55	...	—.	0
J Burns	66	66	66	500
14% conv pr	210	210	210	200
John Edmond	245	250	240	5000
J Webster, 50c	75	75	72	6600
12% conv pr	55	55	55	400
J Nathan	135	135	135	200
J Rattray	285	265	265	1600
12.5% conv pr	195	165	195	100
L W Rudkin, 25c	66	66	61	48000
12% conv pr	125	130	125	6300
Lanes, 50c	65	65	65	100
L D Nathan	228	232	225	12300
9.5% conv debs	227	---	---	0
15.5% conv pr 90	232	232	232	1500
Leyland, 50c	200	---	---	0
Lion, 50c	153	154	152	149500
10% conv pr	155	160	152	15500
12% conv pr	122	122	120	17700
L & M Oil, 50c	37	37	35	23900
Lusteroid	260	...	---	0
Mainzeal Corp, 50c	215	215	215	200
15% conv pr	110	...	...	0
Malt, 50c	305	310	305	3200
11% conv pr	300	...	...	0
Manawatu, 50c	110	110	110	500
Manthel	215	215	215	700
Marac	430	440	430	1100
McAlpine, 50c	112	112	112	3600
McKechnie	242	...	...	0
Midland	210	210	210	1300
11% conv pr	190	...	...	0
Mim Resources, 20c	120	120	100	98900
M O'Brien, 50c	65	65	65	9000
12% conv pr	54	54	54	400
Montana, 50c	147	152	143	39400
M-P I M	210	210	210	500
Motor Holds, 50c	166	190	165	225000
Motor Trad, 50c	76	76	76	11500
5-6% pr	62	..	..	0
11.5% conv pr	61	61	61	500
MSI Corpn, 50c	100	100	100	20900
12% conv pr	100	100	100	11600
Mt Cook	164	195	194	23600
conv pr	153	166	163	42400
M I M Holds, 50c	750	—	...	0
Nat Insurance, 50c	295	310	300	24400
Naylor	150	...	...	0
5% pr	30	--	..	0
Neil Holdings, 50c	85	91	85	62100
N Z Cement	140	145	140	5400
N Z F C, 50c	156	156	150	10600
11% conv pr	130	130	130	100
N Z Farm Fert	220	220	220	26000
12% conv pr	165	165	165	2400
14% conv pr	170	170	170	16700
N Z F P	413	417	403	163250
N Z I G	445	445	445	1250
NZI 10% conv pr	260	290	260	100
N Z Light Leathers	35	35	35	1900
N Z Motor Bodies	85	95	85	1100
N Z M C	166	200	197	18400
N Z News	236	245	236	6400
N Z Petrol, 50c	750	760	750	1350
N Z Refining	158	157	156	13300
NZSB	95	66	93	336700
N Z Steel	223	228	222	52300
N Z United	600	600	600	600
Nuhaka	220	220	220	7500
Odlins, 50c	102	102	65	117000
'A' 8% pr	66	—	—	0
12.5% conv pr	75	66	75	17900
'B' 13% conv pr	78	78	75	9600
15% con notes	120	120	116	63100
Optical	56	56	55	2700
12% conv pr	48	48	46	600
Otago Press & Prod	170	170	160	5600
Pavroc Holdings	240	—	—	0
P O L Holds, 50c	210	210	210	1300
Perm Invest	110	—	—	0
Phillipps & Impey, 50c	222	222	220	22600
Printing & Packaging	215	215	215	65600
11.5% conv pr	180	180	180	3000
Progressive	475	475	470	11700
12% conv pr	625	...	—	0
Prop Securities, 50c	230	245	230	26200
Prud Building	185	—	...	0
Quill Humphries, 50c	116	—	—	0
12% conv pr	105	—	—	0
Radio Avon, 25c	115	116	116	600
Radio Otago	85	95	65	1000
Regina	170	170	170	1000
R & W Hellaby	101	101	61	44600
Reid Farmers	345	645	330	3600
Repco (NZ), 50c	60	60	60	6000
Revertex	320	—	—	0
Rex Consol	300	320	300	2000
15% conv pr	165	165	162	1300
Rheem, 50c	225	225	225	100
Rothmans, 50c	146	183	146	92600
R W Saunders	265	265	285	600
Salmond	230	260	280	2500
Sanford	375	380	375	100
pr	310	—	—	0
12% conv pr	300	—	—	0
12% 'B' conv pr	260	—	—	0
Schofield	275	—	—	0
Scott, 50c	97	98	66	4600
12.5% conv pr	90	—	—	0
Selby	260	280	260	400
Skellerup, 50c	385	366	366	4400
5-7.8% pr	40	—	—	0
Smith Bieleb, 50c	180	185	180	5300
12% conv pr	150	150	150	200
Smiths C M	160	160	160	200
Sthn Cross Hotel	140	—	—	0
Sthn Cross Mins, 20c	36	40	36	28000

	Last sale	Week's high	Week's low	Turnover
S F M	265	310	290	52800
Spedding, 50c	70	70	70	14500
12% conv pr	75	..	..	0
Steel & Tube, 50c	143	145	143	49400
Suckling	158	158	158	3500
Taylors	150	150	150	100
12% conv pr	165	...	...	0
Taitherm	153	163	150	1900
12% conv pr	135	...	...	0
T J Edmonds	315	315	315	900
Tolley	165	165	185	4600
Tourist Corp of Fiji	40	..	..	0
Trans Ashburton, 50c	60	80	60	4500
TNL Group, 50c	115	116	114	22500
10% conv pr	66	60	66	2600
12% conv pr	105	105	105	6600
Trans (Nth Cant)	138	136	136	1300
13.5% conv pr	115	115	115	1300
15% conv pr	115	115	115	1200
U E B, 50c	127	127	125	26000
6.5-7.5% pr	115	...	...	0
12% conv pr	110	116	110	17600
15% conv pr	72	72	72	15500
United Bldg	110	---	...	0
United Publishing, 50c	265	...	...	0
Vacation, 50c	65	99	95	5000
12% conv pr	75	75	70	13600
12.5% conv pr	70	70	70	100
Waitaki-NZR	255	255	250	44000
11.5% conv pr	200	202	200	900
Walker & Hall	450	...	---	0
Wattie, 50c	161	182	160	33200
12.5% conv pr	111	111	110	4200
Waiges	430	---	...	0
Westbridge	265	...	...	0
Wilkins & Davies	440	450	440	4100
5.75-7.5% pr	55	...	...	0
W Jeffery	160	160	160	700
12% conv pr	143	...	...	0
Wilson & Horton	435	435	435	4200
Wilson Distillers	155	...	...	0
Wilson Neill	112	112	112	10700
12% conv pr	165	170	165	4700
Winstone, 50c	73	75	69	106200
12% conv pr	52	53	51	17500
W'Wths (NZ)	72	72	72	700
Wormald	315	...	..	0
5-7.5% pr	112	..	...	0
W Sutherland	110	110	110	1600
Yates Corp	415	420	400	30100
12% conv pr	165	170	155	1500

Government administration

Discounting continues, despite MOT's 'no comment'

From Page 1

other tban at the levels approved by the Secretary for Transport.

"Government has a responsibility under its various internationsl agreements and arrangements to ensure fair and equal opportunity of competition," she said.

While she couldn't comment on this particular case, "we are not sitting inactive and just watching," she said.

Lythe said she expected the Airliae Steering Committee to eonvene soon to discuss discounting and advertising of illegal fares.

The Steering Committee, set up to advise the ministry, includes representatives from other airlines, but is dominated by Air New Zealand.

Budget Travel's sbop window openly diaplays ads for diseounted fares and promotes Freddy Laker's Skytrain.

The Ministry of Transport has actively pursued travel agents advertising discounted fares on airlines other than Air New Zealand and has been busy trying to prevent New Zeslanders flying cheaply with Laker.

Budget Travel and Club International support the state airline by offeriog discounted rates which their competitors find hard to match while remaining within the spirit of the law.

Budget Travel's manager, Rob Earles, assured *NBR* that the sale of $2123.50 of Air New Zealsnd tiekets with the Ministry of Transport approved face value of $3035 was strictly legal.

"I've asked the MOT if it's legal. They gave me a noncommittal answer so I can only assume it's not illegal," he said.

Earles' explanation of how it was done changed as *NBR's* inveatigatioos went deeper into the complex business of airfare discounting.

First, he said he remitted the full face value shown on the ticket to the company issuing the ticket (in this case, Putaruru United Travel), minus his 9 per cent commission.

Then Budget Travel billed Club loternational for the difference between the value shown on the ticket and the price paid.

Club International then billed the ticketing agent for this money, putting it down as promotional and advertising support, he said.

NBR checked with the presideot of Club International, Riddiford, who said: "I wouldn't have my name connected with anything illegal".

"The correct fare is collected from Budget Travel," he said.

NBR pointed out that Budget Travel collected $911.50 less than the approved fore from this traveller.

"I don't know anything about that," said Riddiford.

Riddiford said the club got its money from travel wholesalers within the United Group. Financial matters were handled by Earles, he said.

Companies Office records show Earles as the secretary/accountant of Club International. Other club officers include John Gow of Broadbank, Geoffrey Phillips, a London company director, and two Wellington nurses.

Putaruru United Travel manager Robin Davis said her company was an IATA agent and did the ticketing for Budget Travel at no charge.

"We are just a small agency. We have high turnover figures because we write tickets for Auckland agencies," she said.

Davis said her agency neither received money from Budget Travel, nor paid anything to Club International.

"It's best you talk to Rob Earles," she said.

Putaruru United Travel is owned by Auckland's Gulliver's Travel, but is also a member of the United Travel Services group of travel agencies.

United, with 110 agencies, is New Zealand's biggest group, and together with Atlantic and Pacific and Air New Zealand Associated Companies, owns Gitnway Holidays Ltd. Gitaway agents are paid overriders (commissions on top of the approved 9 per cent commission) for steering clients towards Air New Zealand and British Airways.

Barry Fenton, kingpin of United, is known in the travel industry as "Barry the banker" and is said to be the only man able to deal direct with Air New Zealand.

Fenton said Putaruru United, while a United franchisee, was owned by a competitor, Gullivers Travel, which sold tickets under the name "dollar stretchers".

Fenton said United had no connections with Budget Travel or Club International and paid no reimbursement to either organisation.

Fenton said United was paying agents incentives to sell its products and received support from Air New Zealand in the form of promotional funds.

Air New Zealand marketing manager, Norm Searle, said he knew nothing about the discounted tickets now in Ministry of Transport hands.

"Under the Act the travel organiser has some responsibility. But that isn't for me to police," he said. "I really think it would be better if you spoke to Barry Fenton," he said.

Is Air New Zealand paying United Travel agents the difference between the face value of Air New Zealand tickets and the price paid? *NBR* asked.

"We file the tariff and we stick to the tariff," Searle said.

But when the media make the wider public aware they can buy an Air New Zealand ticket at a third discount, won't that put an end to the few sophiaticated passengers being aubsidised by full-fare-paying passengers, and won't that affeet Air New Zealnnd's passenger mix and profitability?

"Of course it will," Searle said. "The only way you can have any incentive fares is to have your first class and economy fares giving you the yield.

"Anything of this nature is dilution and the airlines can't afford it. There has been a meeting In Geneva within the last fortnight to get the yields up and get rid of anything which proliferates the yield.

"That's what we're working towards. Its a worldwide situation.

"Any of those travel agents advertising something which isn't a filed tariff are in breach of the regulations," Searle said.

But they are never prosecuted, *NBR* pointed out.

"That's today," Searle said.

Several travel agents have pointed out that if Air New Zealand or other carriers don't want them to sell discounted fares, "why do they offer them to us to sell?"

Budget Travel's Earles, in a later interview with *NBR*, said he didn't actually pay Putaruru United, but its parent company, Gullivers Travel.

Where did Club International get its money to pay the difference between the full fare shown on the ticket and the amount actually paid?

"You're getting into an area where I'm afraid I'm going to have to stonewall you," he said.

"I would say the club got no money direct from Air New Zealand. They would be stupid if they did that, wouldn't they? You've got to go back to the ticket consolidators.

"The agents in trouble these days are those not involving a middle man — a consolidator," Earles said.

Pam Donnelly, of Gullivers Travel, said she was unable to comment on the matter. *NBR* would have to talk to the manager, Andrew Bagnall.

Bagnall was unavailable for comment. (Repeated attempts were made to contact him.)

Budget Travel is not the only Auckland agency selling discounted Air New Zealand tickets.

Meanwhile, travel agents who stick to the spirit and letter of the law are losing business.

CHA Travel's manager, Ian Brown, said his company wouldn't discount — and he was losing business to the discounters.

AA Auckland Travel Services said it was losing out in the London market because discounters were undercutting its prices.

Continental Airline's manager Bill Clague said "Continental has never paid over-riding commissions to any retail travel agent in New Zealand and has never discounted tickets to any travel organisation.

Clague offered to sign a sworn affidavit to that effect.

When Continental first entered this market, it tried to offer cheap airfares on a straight-across-the-counter basis to all comers. Continental was knocked back by the Ministry of Transport.

Following disclosures of fare discounting by *NBR* and TV's *Eyewitness*, the Link and other discounters have enjoyed a huge rush of fresh inquiries.

Outside aid for MPs

by Richard Fletcher

PARLIAMENT's watchdog Public Expeoditure Committee has takeo on a researcher — a retired business executive — to help its probe into Air New Zealand's finances.

The committee has brought in Mark Hinchliff, former general manager of W and R Fletchers and chairman of the Fishing lodustry Board.

The need for an extra sleuth stems from continuing public controversy over the airline's operations and the committee's desire to make a proper and thorough job of the investigation.

This is not the first time the committee has appointed outsiders to help (last year's forestry review brought in an assistant through the Planning Council), but a direct appointment is believed to be unprecendented.

Business

Futures market prospers in wake of wool price lift

AN "optimistie" Government wool support price for the coming wool season threw the close of the 1981 wool season into a panic — and stirred up a flourishing futures market.

Prices were forecast to remain around existing levels when the new season opened in August . . . but the June 30 Christchurch sale, the last of the 1980-81 season, was also the high point, with crossbred wools gaining ground as the sale progressed.

Underlining the strength of the market was the AWASP (adjusted weighted average price for the sale) of 271.2c a kg.

"The sale was up 2 per cent overall which was partly expected with the recent squeeze," said Christchurch woolbuyer Peter Marshall. "So the increase was not that surprising."

But a day later, July 1, the Government set its support price for 1981-82 season at an optimistic 320c a kg, a price high enough to spark renewed speculation about a possible devaluation of the New Zealand dollar in the Budget or before the start of the new season.

"The Government did surprise us by setting the new minimum price 49 cents above the Christchurch sale close," said Marshall. His soundings of the market here and abroad since indicated serious doubt that the market would reach 320c a kg.

"About 271 to 280 cents would be very realistic," he suggested. "Unless something dramatic emerges there seems little reason for wool to reach 320 cents."

Agriculture Minister Duncan McIntyre announced the new minimum price — indicating a level 28 per cent above the average for the season just ended — at the same time as the New Zealand Institute of Economic Research predicted in its latest *Quarterly Review* that coming season wool prices would rise by 30 per cent to 325 cents, based on an expected improvement in world demand. The institute expects a 22.5 per cent volume lift in wool exports next season, coinciding with a production dip.

Good news for the national economy in its suggestion of a 59 per cent rise in wool exports to June 1982 to $1360 million. At $1400 million, wool exports would be three times the level three years ago, said Federated Farmers meat and wool section leader B D Chamberlain.

The wool futures brokers are curious, however. While Western economies may well be on an upswing, the current problem posed by the strength of the American dollar persists.

On the eve of the Budget, there seemed three possible scenarios. Expectations could be fulfilled in the future and wool could reach 320 cents; there could have been a devaluation in the Budget or there could be a higher shift in the monthly float of the dollar by the Reserve Bank.

The contingent risks in setting too high a minimum price could be reduced by a devaluation, which would enable foreign buyers to adjust accordingly. In the event of an overestimate, a higher level of monthly devaluation would also reduce the amount the Government would have to pay out to support 320c a kg. Neither might be necessary if the market swings higher.

But the prospect of a devaluation prompted traders to turn speculators in wool futures in the last two weeks. Farmers turned from their normal hedging of wool clip interest to run the risks of a $400 a contract plunge and city interest ran high.

Marshall described the July 1-2 change in the January 1982 contract as "dramatic", with a leap to 414 cents. "When the call opened after the price support announcement there was panic buying.

"The trade moved in when prices steadied and became sellers, taking the profits and opening new contracts."

The volatility remained and interest was keen up until the Budget as speculators tried to pre-empt a possible currency change, aware that a Budget speech without a devaluation announcement probably meant a period of softening futures prices.

But for investors who had entered the market only a month beforehand there would have been plenty of excitement in futures. On June 4 the January 1982 contract was trading at 390-393; a month later on July 4 it was closing at 414 cents for a 24c a kg gain, or $475 profit, after allowing for the commission.

Futures trading in the New Zealand crossbred greasy wool No. 2 contract has already been an outstanding success in only its first year.

Eight affiliate firms of the London Wool Terminal Market Association are now active in this country, operating a daily call in the late afternoon and monitoring the London futures trading overnight.

The ranking of New Zealand as a wool producer undoubtedly ensured the future of a "hedging" service for farmers and woolbuyers alike, but it would not have flourished without the speculative aspect introduced by the private investor.

Wool futures trades exceeded 10,000 in the first year and values represented topped a billion dollars. Enough private investors and wool trade interests have accepted wool futures to ensure the survival of the market and the level of activity is nearing the point where an actual national trading floor may soon be contemplated.

Futures trading is the buying and selling of contracts; an agreement to buy or sell a certain amount of a commodity contract at a fixed price, at a specific date in the future.

In the case of the New Zealand crossbred wool contract it is an agreement to exchange a contract for 2500kg of clean crossbred wool (21 bales a contract).

Prices are quoted for a specific type (35F2D) on a clean weight basis up to 19 months ahead, on specific months. Very few futures contracts actually reach maturity (that is, delivery). Traders can rid themselves of their obligation by entering into an opposite contract, thus closing out the position without actual delivery.

Open positions have continued to climb this year and topped 2200 lots by June.

Traders have had two major factors to monitor. Marshall points to a need to plot currency shifts as well as physical wool auction prices.

The uncertainty of the currency scene had injected uncertainty into wool sales and thus on into futures and it became clear that markets were open to substantial movement.

As the American dollar strengthened, consistent buyers began to curtail purchases. New Zealand's managed float of about 0.6 per cent a month has also meant that over a year we have revalued against significant European currencies by about 12 to 15 per cent, a dampening factor for physical prices.

Into June the two factors began to have strong impact.

Analysing annual accounts: CCL

by Klaus Sorensen

COMPUTER Consultants Ltd shareholders have a fair bit to cope with in the company's first annual report since listing at the end of last year.

Apart from the fact that the 48-page report would do NZ Forest Products proud, they will have to come to terms with an unusually presented set of accounts, a high gearing and nine pages of notes to those accounts.

But on the plus side the company's level of disclosure is generally good, the written reviews informative and frank, and CCL's prospects for the future look good.

The basic problem is that the market has never really had to size up a computer company before.

A company like CCL has less need for investment in fixed assets, because its main emphasis is on the production and implementation of computer software (programs) and its main "assets" are the skills of its employees.

The company does, of course, market a large range of equipment but in that respect it is not very different from most other franchise representatives. Where it differs is that CCL concentrates on designing and implementing software and also servicing existing installations — and that's a skill-intensive business.

But managing director Ken Fraser early on in his report, says "for the first time our accounts will be subject to close scrutiny by financial analysts and judged according to traditional standards. They will no doubt decide that some of our ratios fall short of the desirable levels."

"While the cash issue since balance data will improve the situation somewhat, I would also suggest the following factors should be taken into account."

He explains that as one of the largest computer software groups in New Zealand CCL has, over 10 years, developed numerous computer programs and these have not been capitalised.

The value of the management team and the fact the company launched directly into the computer age — rather than having "historical ties and commitment to the mechanical age" — are also advanced by Fraser as reasons for the low ratios.

Fraser's fourth reason is that "apart from computer programs there are computer-based products, licences to publish, expert services, and knowledge which are extremely valuable and yet do not show in the assets column of the balance sheet".

He explains that a fraction of their value shows up as goodwill because in acquiring Fourth Estate Holdings, the traffic signals group Tessco and the Australian company, CID, some of the intangible assets were taken into account in arriving at the purchase.

And this is likely to be the second major reservation the analysts and larger investors are going to have.

The company has a very high proportion of goodwill in relation to its total assets. Using conservative accounting practice goodwill would be deducted from total assets in determining the debt equity ratio — so CCL's finances are not as strong (in the traditional sense) as many might prefer them to be.

As reported, the company increased its net profit from $259,000 to $620,000, and it is evident from both the balance sheet (which shows a big increase in borrowings) and the profit and loss account, that the company took the opportunity this year really to gear itself up.

Revenue was up 39 per cent from $11.4 million to $15.9 million, but expenses were not far behind, rising 37 per cent from $10.7 million to $14.6 million.

Included in the expenses rise was a 93 per cent jump in "other interest" charges from $352,000 to $681,000 and a five-fold rise in equipment leasing from $115,000 to $574,000.

Building rentals were up 26 per cent from $382,000 to $483,000 and the two major items of expense were salaries and wages of $4.1 million (up 27.6 per cent from $3.5 million) and "other operating costs", up from $5.4 million to $7.3 million — a 35 per cent rise.

Neither the other interest charges or other operating costs are detailed in the notes.

The resulting operating profit was up from $777,000 to $1.3 million. Including a $9000 dividend from an investment in a public company, management profit sharing commissions (up from $120,000 to $152,000) and an increase in the tax provision from $111,000 to $515,000, the net profit was $620,000.

Rather than the traditional two-page balance sheet with liabilities on one side and assets on the other CCL has presented its balance sheet in a combined form.

It shows current assets up from $3.6 million to $6.1 million, fixed assets up from $3.1 million to $4.1 million, goodwill of $1 million ($ [illegible] previously) and a total assets figure of $11.9 million ($7.3 million in 1980).

The company's current assets comprise debtors of $3.5 million ($2.2 million) and stock of $2.6 million ($1.3 million).

Current liabilities are up from $3.1 million to $6.7 million, with total liabilities of $9.1 million ($5.1 million).

Net assets are $2.9 million, compared with $2.2 million, giving a proprietorship ratio of 24 per cent. The paid capital is $1 million but this has been increased by a 1-for-3 cash issue following the balance date. This will result in an improvement in the proprietorship ratio (to 34 per cent) and a healthy $867,000 contribution to the share premium reserve — sufficient to enable tax-free dividends for 2.25 years.

Current liabilitles comprise a bank overdraft of $939,000 ($39,000) trade creditors of $1.8 million ($925,000) bills payable $1.7 million ($1 million), liabilities to finance companies (under amounts due by subsidiaries) of $1.4 million and term and other liabilities of just over $1 million.

But the company's disclosure does fall a little short in places: there are no divisional turnover or profit breakdowns — though the proportion of Australian and New Zealand revenue is provided on a smart colour graph — and there is no reference to the company's not inconsiderable investment in the Wellington firm, British Office Supplies Ltd.

The CBA Finance list of top 20 shareholders in public companies shows CCL to have a [illegible] per cent shareholding in BOS (162,000 shares) as at June 20, 1981.

While there is no mention of this shareholding anywhere in the report, the assets in the balance sheet include investments of $124,000 being shares in companies at cost and the profit and loss account lists $9000 worth of dividend income "from investments in public companies".

So shareholders must assume the BOS shares were held at balance date — and would, therefore, be entitled to ask what the director's intentions are with this holding.

The report gives a breakdown of the effect of the acquisition of the subsidiaries (Fourth Estate, Tessco and CID) which shows that of the total purchase price for the three of $1.7 million, over a million consisted of goodwill.

The consideration was made up of $60,000 worth of shares issued at par, $311,000 being shares issued at a premium, cash of $685,000 and cash still to be paid at $578,000.

There is also a list of directors' shareholdings (they hold 60 per cent of the shares) and a series of detailed articles on the various subsidiaries.

But what may grab investors' attentions most is the reference by Fraser to the company having grown so much locally "we are starting to hit our heads on the ceiling".

He explains that the answer lies in Australian diversification through the company set up there three years ago, and the Computer Installation Development Co Ltd which was acquired earlier this year.

He predicts that by the mid-1980s the Australian subsidiary will equal the size of the New Zealand activities, and says the company has entered the current year with all subsidiaries forecasting a profitable trading year, "for the first time".

And for the ordinary investor such growth indications may be just as important as the analyst's attitude to the company's high gearing and its comparative financial youth.

NZWS deal stalls Lion plan to shed liquor interests

by Warren Berryman

LION Breweries' long-standing corporate policy to diversify out of the liquor business has been turned around by a move from Auckland's Campbell and Ehrenfied Ltd.

Under the terms of a deed signed in 1971, Lion will have to buy the 50 per cent shareholding it does not already own in New Zealand Wine and Spirits Ltd from Campbell and Ehrenfied.

Lion has been selling its pubs in an attempt to diversify — particularly into the food business.

But 100 per cent ownership of NZWS will not only strip Lion of spare cash to diversify, but make it sole owner of the country's biggest liquor empire.

NZWS has a turnover well over $100 million. It owns 30 outlets in its own right and has a one-third interest in Tasman Wines and Spirits (NZ) Ltd's 18 outlets.

NZWS controls about 33 per cent of the wholsale liquor trade and about 15 per cent of the retail trade.

Tasman Wines and Spirits, which bought out Wrighson's 18 outlets late last year, would have about 6 per cent of the liquor market.

NZWS was set up in 1971 by Campbell and Ehrenfied and Lion. C and E included its 26 Auckland pubs in the deal and Lion its liquor outlets.

C and E got out of the hotel business and Lion out of the wine and spirits business and both companies agreed not to compete with each other in their respective fields.

Under the terms of this 1971 agreement C and E could ask Lion to buy out the remaining 50 per cent shareholding it did not already own at any time. It exercised the option to sell on June 9.

Lion must buy the shares at "a fair value price". If no price is agreed on, the matter will go to arbitration.

Neither Lion nor C and E will indicate what a half-share in NZWS is worth.

But last year the company recorded a turnover between $100 and $150 million and a pre-tax profit of about $6.6 million.

Since NZWS was founded, Lion has changed its direction, shedding pubs as fast as it was once buying them up. Lion sees its future in food, not liquor.

NZWS invested $1 million in a plant to make the Jamaican coffee liqueur, Tia Maria, under licence. Hooked into Tia Maria's marketing and promotional network, NZWS is exporting about $6 million worth of Tia Maria a year.

NZWS also compounds other spirit-based liqueurs such as Pernod, Southern Mist, Mandarine Napoleon, as well as Gilbeys, Beefeaters, and Schenley gins, and Smirnoff and Samavar vodkas.

Last year NZWS joined forces with Australia's Tooheys — Castlemaine and International Distillers and Vintners (part of Britain's Grand Metropolitan Ltd) to form Tasman Wines and Spirits.

Tasman Wines and Spirits bought out the 18 Wrightsons' liquor outlets from the Challenge Corporation.

Tooheys-Castlemaine owns Wyons wines and NZWS became the New Zealand distributor. Tooheys-Castlemaine is considering setting up an Australia-wide distribution network into which its New Zealand partner might tap.

IDV compounds its gin and vodka in Australia, where the operation has proven unprofitable.

Aided by this country's export incentives, NZWS's white spirit exports could take over from IDV's Australian-made products and be sold through Tooheys-Castlemaine outlets.

White Spirit is made by the New Zealand Dairy Co-operative Ltd from waste whey in the same IDV process used to make the white spirit for the popular Baileys Irish Cream.

The NZ Dairy Co-op can only sell its white spirit as industrial alcohol.

If the rules were changed, NZWS would be in a strong position to buy this cheap alcohol, compound it to make liquors, and export it at competitive prices.

NZWS has talked with IDV about making some of its products here with grain alcohol, but perhaps later from whey-based alcohol.

IDV owns Britain's Express Dairies, and is particularly interested in tying itself into our dairying expertise in the manufacture of cream-based liqueurs.

The face of the country's liquor distribution system is changing rapidly. Challenge Corporation sold its outlets to Tasman, and the PSIS sold its four big outlets to Wilson Neill.

After many years of nearly uniform prices, and little price competition, the industry is now competing fiercely for custom with discounted prices.

Both Lion and NZWS see little change in the marketplace arising from the Lion takeover of NZWS. NZWS has always been seen as Lion's wine and spirits arm.

Lion managing-director John Macfarlane said both his company and C and E had equal representation on the NZWS board. All NZWS projects had the full support of the board and present plans would be carried out he said.

John Macfarlane . . . full board support.

Aviation

Skybus rapped for advertising before approval

by Warren Berryman

SKYBUS, the fledgling airline with more false starts than takeoffs, haa been rapped by the Ministry of Transport for advertising "proposed" international air fares before receiving Government approval to fly.

A Ministry of Transport spokesman told *NBR* Skybus had not at that stsge applied to fly the routes mentioned in the advertisement.

Nor did it have planes to fly these routea. Skybus was then still negotiating with Polynesian Airlines and Evergreen International to charter planes.

A full page advertisement appeared in *The Hutt News* on June 16 urging the public to buy $180 lifetime founder memberships in the Aqua Avia Society (Skybus) because the founder membership liat was soon to be closed.

The ad liated domestic fares at rates 30 per cent below Air New Zealand's and international fsres to Hong Kong, Samoa, North America, Auatralia and Britain — running about half the normsl economy farea on these routes.

The "editorial" mesaage accompanying the ad aaked if readers believed the Government "will in the future interfere with Skybus to protect the State-owned airline?" Skybus claimed in its anawer that the Aqua Avia Society was "aound in law and it is sound in principle,"

The Ministry of Transport took Skybus to task for advertising a list of tariffs without its blessing.

Skybus's new public relations and advertising man, Derek Little, said the advertisement was a mistake thst would not be repeated.

"We didn't intend to publish a formal fare structure but only to indicate the sort of comparative savings available to Aqua Avia members," Little said.

He acknowledged that Skybus had "been rapped over the knuckles by the MOT" and the ads had been stopped.

Skybua haa been negotiating with Polynesian Airlines to charter a 737 for a flight to Brisbane and is investigating the possibility of a semi-charter deal with Polynesian to fly members to Tonga at discounted fares.

Skybus fares on the Brisbane and Tonga flights depend on the price charged by Polynesian.

The civil servant strike in Samoa, where Polynesian has its head office, slowed negotiations.

The Viscount chartered from British Air Ferries is expected to arrive in New Zealand decked out in full Skybus livery late next month to start flying domestic routes in September, Little said.

He said domestic fares would be aet 30 per cent below Air New Zealand's.

Skybus has engaged a new team of aviation men to operate its forthcoming services.

A new company called Aviation Consultants and Management Services, has been engaged on a year's contract to handle ground handling and reservations.

The consultancy is made up of Ken Gibson, a former Polynesian Airlines executive and ex-Air New Zealand employee with 27 years aviation experience, Bill Kirk, and former Air New Zealand pilot, Ann Carmichael, also formerly with both Air New Zealand and Polynesian Airlines for eight years, and a fourth "sleeping partner" whom Gibson declined to name.

Skybus has taken on Jack Carr, a former civil aviation division man, as a consultant on retainer.

Skybus chairman Sir Reginald Barnwell, one of Polynesian Airline's founders, initiated Skybus's charter negotiations with Polynesian. These negotiations have since been carried on by Gibson.

Polynesian Airline sources say their company would welcome a charter arrangement because its planes are not fully utilised. But, they point out, a sticky point in negotiations might be reached if Skybus's discounted fares threaten to undercut Polynesian's fares by too great a margin.

Jetset in on discounting

by Gordon McLauchlan

THE travel industry is apprehensive at the entry of Australia's biggest travel business entrepreneur, Izzie Leibler of Melbourne-based Jetset Tours Pty.

Jetset has formed a joint travel venture with the Nathans Groups's wholesale travel section.

With nearly 300 outlets — the biggest in Australia — Jetset has been strongly associated across the Tasman with Air New Zealand. The relationship has been heavily involved in discounting.

A few months ago, when Jetset was a small operation here headed by former Air New Zealand and UTA staffer Ian Rumsey, an Air New Zealand spokesman assured the locals there would be no special deals with the company here.

But Jetset now has a substantial interest here as partner to Nothans. It may pressure Air New Zealand for part of the action here — or threaten to lose aome interest in the airline's business in Auatralia.

Now that Air New Zealand has regained access to the promotional fares business out of Australia to North America, that could be a heavy business lever in favour of Jetset.

The possibility of losing some local buainesa to Jetset will give Air New Zealand tour ossociates here cause for worry — notably Atlantic and Pacific and the United Travel consortium.

Pan Am haa been traditionally associated with Nathans Travel in New Zealand. It may be forced to find new osaociates.

Jetset was Invited into the country because Nathans's travel organlsation lost more than $500,000 in the 1980/81 financial year. It has had some monagement problems since loaing the services of experienced and shrewd travel veterans Lloyd Tremaine and Lea Holt.

The company has shed staff, including some off the top, then went ahopping in Australia for a partner.

Lelbler ia said to have leapt at the chance to expand his emplre here without having to start from the bottom.

Marketing

Support for group research

"FOCUS group interviews" represent a research technique where a group of consumera are encouraged by an interviewer or moderator to discusa quite freely s topic related to the group's experience.

Most frequently the discussion centres on a product range or on household activities which have a relation to buying patterns. Usually the whole discussion is recorded and carefully analysed.

The darling of researchers and marketers when first introduced, it has more lately become a hotly debated issue, possibly, as some claim, because it can become an abused procedure.

Newly appointed Massey professor of marketing, Steve Bridges, is one who still champions the use of the focus group interviews, particulsrly when employed to ssaiat the marketing thinking of small companies who find full acale research beyond their economic means.

"It can preaent great value for a reasonable outlay," says Bridges. "The limitstions imposed by not doing it can outweigh the cost of doing it."

Bridges, speaking at the recent annual conference of the Market Research Society, pointed out that all marketing activity must be preceded by an exploratinn of the underlying motivations for buying the product.

Purchases are not not made merely for the intrinsic value of the product itself. There are emotional and social attrihutes, such as those attaching to the purchase of sn exclusive car, which have to be taken into consideration.

So it is necessary to understsnd the consumer's wants, his fruatrations, his satisfactions and anxieties. The group interview gives an opportunity to probe the consumer's mind when it is focusaed on the particular product or service topic.

Insight into consumer's needa will help guide future marketing conduct.

Bridges identified two other areas where the group interview technique is of value to small businesses.

"Group discussions are of particular use when introducing or testing new products. Prototype research can be done with small groups or individuals and may often prove revealing. They are not reliable for establishing pricing expectations or purchase intentions.

"And when a pcoduct has been launched, small groupa can be helpful in o post-testing exerciae."

The small buainess in need of research may only be able to afford the relatively low cost of a focua interview. Used cautiously and wisely, it is a far better option than no research at all, said Bridges.

— Grev Wiggs

Think pictures says adman

DATA derived from reaearch is useful to the advertising agent only if it is given meaning — and the meaning must always be related to the consumer.

This was the message that Carlton-Carruthers du Chateau's deputy managing director, Don Donovan gave to the Market Research Society's recent annual conference.

"Pictures mean a lot more than numbers," said Donovan. "If you work with numbers every day, you can probably make the picturea frnm them in your mind. But if you work with pictures — as do advertiaing people — the aooner you can turn research's numbers into real pictures, the quicker you can make the data meaningful."

The danger to users of visual symbols is that they can mean something different to each viewer and sometimes reaction to those images can be diametrically opposite with two different individuals.

Donovan saw the process as data collected by the research houae being turned into *description* by the research house in collaboration with the agency and given meaning in consumer terms by the agency.

Because it is the advertising agency's function to communicate with the consumer in order to produce action — usually sales — it must be able to identify the needs and wants, attitudes and behaviour of the consumer.

"And we need to try to avoid the de-humanising effect of the word 'consumer'. It's a convenient word but really it needs flesh and blood, it needs to be a person — a human being.

"The monumental frustration of the advertising agent is that he wants to communicate with an individual but he can't. The whole idea of advertising is that it is a cheap way to get to consumers (whereas the most efficient way is by face-to-face selling, which is prohibitively expensive)."

Donovan suggests that market segmentation research provides a useful method of classing consumers into recognisable, describable groups.

"All we can really do is to try to isolate a commercially viable group of people out of the universe who have sufficient similarities for our advertising to be meaningful to them."

Within the larger group of users of the product there are a number of smaller groups who share certain attributes. These "affinity" groups can be identified as different segments of the same market.

In a study of the block chocolate market carried out for the agency, market groups of users were identified by such descriptive terms as "male munchers", "indulgent chocolate lovers" and "energy nibblers".

In another study into tea user groups, some classification terms were "break seeking housewives", "old fashioned tea lovers" and "hospttable drinkers".

The naming of the group immediately touched off pictures in the minds of the creative people," said Donovan.

"These segmentation studies have been major components in our ability to describe the targets and to appeal to them with meaning.

"To my mind this sort of research is the real *consumer* research and is a big step ahead of much head-count research which comes from media studies, household surveys and in-store audits."— Grev Wiggs

" Up to your old tricks again, Arnold Beasley! Didn't think I'd fall for your 'Business trip up North' tale, did you? "

The media

Consumer club wins listeners

ONE of the country's most unusual radio shows is making plenty of friends, and a few enemies.

Radio Pacific's *Consumer Club*, running Monday to Friday between 1 and 2pm is hacking at rip-off companies, exposing untruths in advertising and running frank, on-air opinions of new products.

One of Gordon Dryden's early aims in setting up his all-talk station was to home in on consumer affairs. After juggling with various lunchtime formats, the station seems to have found a winner with *Consumer Club*, which may help to give the ratings a boost when the just-completed McNoir survey results are published.

Pacific trailed behind 1ZB, Hauraki and Radio i in the last ratings survey. But the station hit a public nerve when it invited listeners to join its consumer club. After six weeks on air there are more than 500 members, and they're joining at the rate of 100 a week, says journalist Graeme Colman who co-hosts the show with home economist Brenda Hopkins.

Club members get the chance to join test panels (toothbrushes, electric can openers, antkiller, a booksaving clothesline aid and micro-wave ovens have come under scrutiny) and the station is considering publishing a newsletter detailing the results of its investigations.

"We haven't yet decided whether it will be for public consumption or just for club members," said Colman.

Colman and Hopkins have had good support from the Consumers' Institute, said Colman. "We see each other as complementary rather than competitive."

Companies under scrutiny were usually happy to co-operate, and very few had refused to come on air to answer questions, he said. Radio Pacific has lost one advertising account as a result of consumer inquiries, but gained five more new accounts.

"The honest companies are not afraid to come on air to defend their products," said Colman. "Those who have a good policy on dealing with consumers see it as a good avenue for public relations."

But he is still trying to track down the principal of a house-cladding company, about whom the station has received 13 complaints.

"People have spent up to $4000 having unsatisfactory work done on their houses and can't get repairs done. The product concerned has apparently not been through weather testing, and does not have Housing Corporation approval."

He has phoned Sweden and England investigating a hair restorer (and found that the claims being made for the product here are not made by the English manufacturers), found out that a man selling cheap cigarettes was an inmate of Wanganui Prison using Justice Department envelopes and franking machine to conduct his mail-order campaign, and has had a go at an Auckland bus driver selling information to people for $4 on how to reduce their house-keeping bills.

The "advice" included tips on how to corn meat, water the milk and open a Christmas club bank account. Then there was the supplier of chicken to fast-food outlets who was soaking foul-smelling chicken in vinegar to disguise the smell. The Health Department is investigating the case.

Dryden describes the consumber club as one of the best things that's happened to Radio Pacific. The station is hoping that other programme changes will also boost the ratings which were down to 8 per cent in the last McNair survey, and 11 per cent in the most recent BCNZ survey.

Geoff Sinclair, who left ... months ago, is back on ... cheerfully abusing callers in tandem with Tim Bickerstaff on early evening sports talkback, and the show is being extended to a three-hour slot (from 4pm to 7pm) in an attempt to drag in more drive-time audience. Public comment on David Hartnell's afternoon chat show had been very favourable, said station manager Mike Jack.

— Lindsey Dawson

Gordon Dryden . . . found winner

Retailing

Corner dairy on way out, wholesaling expert claims

by Lindsey Dawson

THAT bastion of the Kiwi way of life, the small corner dairy where you can amble in to pick up your fags, a bottle of milk and the Sunday papers, must adapt to change or die.

That was the strong message from the general manager of Associated Wholesalers, Peter Brown, at last week's retailers' convention in Auckland.

Brown told *NBR* later that his remarks were aimed at helping, and not criticising, those retailers who were currently running this type of business.

"The pressures of a more sophisticated society, modern methods, and competition dictate that food retailers must meet the changing climate or face certain extinction. As I told the convention, there is a tremendous future for the small independent retailer who reacts to the consumer's requirements and the environment of the 1980s.

There had been a decline of about 30 per cent in the number of retail food outlets in New Zealand in the past 20 years, he said. "This obviously means consumer demand for larger, more efficient and more attractive retail food outlets."

He said that there were still people who believed that the earth was flat, "and I have no doubt that there will be those believing in the future of the corner dairy until the bitter end. A great number of retailers have already reacted to the changing social and consumer environment and they will reap the rewards they deserve."

AWL, a member of the L D Nathan group of companies, has three groups of small food stores under its wing – Foodmaster, IGA Super Discounter and Family Fare. The only major competitors are the Four Square stores under the Foodstuffs NZ umbrella.

Prime Minister Rob Muldoon also spoke about the need for change but told small retailers he had every confidence in their future success.

"Small corner dairies are a feature of New Zealand life, especially in suburbs and the areas where many people live in flats, furnished rooms and the like and who shop in a casual, almost hand-to-mouth basis, especially at weekends," he said.

"I would not like to see these corner stores disappear entirely and I do not think they will unless someone comes up with a better, cheaper convenient sort of service available at times people are accustomed to expecting."

But these changes are already under way, according to Brown. "The rate of change in the retail food industry today is totally unprecedented," he said.

These changes were:

- The steady growth of the sophisticated one-stop supermarket;
- The discount barn concept with limited stock range, low standard of presentation and low level of service – with consequent cheap prices due to low overheads;
- The early stages in the development of modern convenience stores;
- The major change in the structure of the work force, with some 40 per cent of New Zealand women going out to work;
- The development of Saturday trading;
- The creation of a new social environment, where the utilisation of leisure time creates new social patterns and consumer requirements;
- Rapidly developing technology which, said Brown, "will have a dramatic effect on the food industry at all levels."

Big supermarkets have until now had a technological edge on the small food store in their ability to finance sophisticated computer systems.

But, said Brown, AWL will soon be able to provide small retailers with a "very simple and economic link into our computer to facilitate quicker and more efficient handling of orders placed on us.

Brown told *NBR* that this would happen in a few months. Retailers will be able to use portable data entry units, a small calculator-sized device used to order new stocks. The retailer can enter his orders on the unit and send the information down the phone-line to AWL's computer.

Brown would not tell *NBR* how much access to the system would cost retailers.

He told retailers at the convention that retailers had a strong contribution to make in one of three areas:

- Small neighbourhood supermarkets. "These will provide sophisticated one-stop shopping, well-merchandised presentation, friendly atmosphere and competitive prices."
- Medium-sized discount stores of 2000 or 3000 square feet, with a "keenly priced" limited range of products, neighbourhood located, but still offering consumers a more attractive level of personal service than that available from the large discounters.
- Convenience stores, which will offer a wide range of food products with a competitive but not low-price image, open at hours suiting the public.

This last group is having its problems with Sunday trading. Many small food retailers say they need to be open seven days a week. The Government, as Muldoon said at the convention, has made it clear that it has no intention of allowing shops other than dairy-mixed business to open on Sunday.

"Whether or not a business qualifies as a dairy-mixed business is a decision for the one-man Shop Trading Hours Commission," said the PM. "I understand that he has already decided on about 690 of the 2100 applications received. Of the 690 applications he has allowed all but 44."

Brown said that there were "some indications" that the Shop Trading Hours Commission may not be interpreting Parliament's legislation "in a manner which will be consistent with modern trends, and which will recognise the consumers' best interests."

"It is early days yet, and I don't want to make too much of it," Brown told *NBR* last week. "But as we told the select committee considering the legislation, we feel that the term 'dairy-mixed business' is archaic."

Associated Wholesalers is a member of the Nathan group, and so, too, is Woolworths with its classy supermarkets. The interests of the corner store proprietor, and the supermarket chain, both under the Nathan wing, seem opposed.

"Sure we're in competition. We do it openly, but we operate quite separately within the group," he said. AWL was committed to the interests of the little man. "Some people, including unionists, tend to think that the Nathan group is representative of large business interests but the survival of this company depends entirely on the goodwill and support of the independent retailer."

In his speech at the convention he cited various reasons why consumers don't always want big supermarket shopping, such as escalating fuel costs making it progressively uneconomic to make special trips to buy food; a reluctance to spend valuable time in big stores where many feel that they are exposed to the temptation of making unplanned purchases; a preference for personal service, rather than being "treated as an anonymous number passing through a checkout"; and the fact that "a good independent has the initiative and the freedom to respond more readily to the needs of his customers, and is not dependent on some head office decision taken on a totally remote basis."

Electronic retailing almost here

THE first bar-coded products allowing electronic price-scanning at supermarket check-out counters will appear from manufacturers within six months, says Matt Storey, chairman of Associated Wholesalers Ltd and of the New Zealand Product Numbering Council.

Speaking at last week's Retailers Convention and trade exhibition in Auckland, he said ... about 50 per cent of all dry grocery products will be bar-coded within two years.

Bar-coding, a small barred area on product packaging, is a fact of retailing life in the United States, and the latest scanning devices, incorporating a laser-beam to "read" the code as products are passed over check-out scanners, will shortly be available in New Zealand.

The system allows complete in-store computerisation, handling stock control and ordering, and giving profit and loss information as well as speeding up check-out operation.

While present-day prices put such technology out of the reach of today's small retailer, the future would be different, said Storey.

There was a massive downward trend in the cost of electronic equipment, he said. "I am firmly of the belief that in-store computing and in-store point-of-sale equipment will be in the reach of, and fully justified, in stores down to two check-outs, within the next two or three years."

Portable data entry devices were already in New Zealand, he said. Queensland experience had shown that they gave big savings.

"Using the post, and the mail order book, you can almost guarantee a 24-hour delay in the post and a further three to five hours, depending on volumes, in your order book being used to key in your order to produce the documentation. Using the order entry device, you dial up your supplier's computer and send in your order.

"This automatically takes it into the computer and creates the data necessary to service your order. The saving is at least 24 hours and in many cases would be in excess of 48 hours.

"I believe this saving is absolutely vital to your future in these times of high money costs, and the need to develop better skills in stock management, stockturn rate and in funding utilisation," he told retailers.

Storey said he recalled that when Albert Gubay set up his 3 Guys discount food barn business in 1972/73, "the prophets of doom" were convinced that he would drive the independent out of business.

"I see little sign of that. I see a developing sign of rationalisation in the retail sector of most independents, but good independents have good businesses, provide the community with essential needs, and make responsible profits."

These people had decided which market segment they should go for, he said. "If Gubay was right, or if price was the only criteria, surely we would all be on the same band-wagon. But looking around, you have food barns, you have chains, you have limited selection stores, you have every type of facet of marketing brought to bear in our industry and each one has its own brand of customers."

Fishing

Soviet undercutting of NZ sales confirmed

THE Fishing Industry Board's agent in Spain has confirmed that Soviet-caughr fish from New Zealand waters has been undercutting our own fishermen's export efforts.

And an Auckland company says it loat a Spanish export order worth nearly $250,000 because of the price-war.

FIB representative Cecil Pavillard has just visited New Zealand.

He confirmed reports (*NBR*, March 30 and April 6) that export opportunities were being lost in Spain because of Soviet marketing acrivities.

Pavillard's observations conflict with a Government report which asserts there is no hard evidence that Soviet-caught fish from New Zealsnd is undercutting our Australian export market.

That report was commissioned afler allegations of Soviet undercutting on two markets — Spain and Australia.

Pavillard said many thousands of tonnes of Soviet-caught New Zealand aquid entered Spain last year via the Canary ialands, where it was partially processed, to sell in msinland Spain for 67c a kilo.

He said there was no doubt that the Soviet Union was undercutting New Zealand salea.

New Zealand squid is highly regarded in Spain, ond Pavillard said he could have found buyers for the squid who would have happily paid 90 cents a kilo.

One company in Valencia alone bought 5000 tonnes of New Zealand squid from Russian sources at the lower price.

Puvillard said he was unsure whether the squid had originated from Russia's two joint ventures in New Zealand waters, or from Russian licensed fishing boats with no direct New Zealand connection.

About 15 per cent of the Russian joint venture fish is processed in New Zealand. The rest goes straight out of the country, and its marketing is largely handled by the Russian, rather than the New Zealand, end of the operation.

In the 1980 calendar year, foreign licensed vessels caught 23,000 tonnes of squid in New Zealand waters. Local and joint-venture fishermen caught 17,000 tonnes between them, and of that only about a quarter was caught by New Zealand fishermen.

That means New Zealand fishermen catch somewhere between $1 million and $[illegible] million worth of squid a year — not large compared with catches of some other species, but nevertheless significant.

One Auckland company claims to have lost a Spanish order for a substantial quantity of squid because of the price war.

But the company says the Soviet marketing of New Zealand squid was not solely to blame for the last-minute loss of the order.

A company spokesman told *NBR* that Canada is also marketing squid at low prices in Spain. "In real terms, it's Russia versus Canada," he said. "New Zealand is caught in the middle."

The Spanish order had been for 2000 tonnes of squid around $1200 a tonne. But it was lost partly because Canadian companies made advance offers to supply squid — three or four months before their season even started.

His assessment of the Spanish market is that the Soviet Union started the price cutting war and forced the Canadians to follow suit.

New Zealand was reluctant to follow the trend because Japan has tended to set the going rate for New Zealand squid, he said.

Our squid is regarded in Japan as second in quality only to squid caught off the east coast of Japan itself. And the Japanese will pay up to $1.20 a kilo — well above even the best Spanish offers — as long as the squid has been properly handled.

Pavillard said the Soviet undercutting in Spain has suddenly stopped over the last few months. He said he expected New Zealand could now break into the Spanish market — although prices may not match those offered by Japan for the best-quality squid.

Pavillard said the fishing industry in Spain did not know why the Russians had suddenly withdrawn — but fishing sources here suggest it is simply because of low catches.

And that suggests the price war could resume when catches improve.

That is bad news for New Zealand, because the Spanish fish market is rapidly growing in importance.

In 1978, New Zealand made its first aales of fish to Spain, to the modeat tune of $87,000 for the year. By the next year, exports rose to $2.8 million, and remained about that level last year.

The Spanish, who eat 36 kiloa of fish a head of population a year, are in deep trouble with their domestic fleet and have become a major importer.

Spain used to catch 80 per cent of its own fish, but mostly outside Spanish waters — and the European fishing war has forced Spanish vessels out of their traditional grounds.

As a result, Spain now catches only 20 per cent of its fish requirements, and is forced to import the other 80 per cent.

Law

Cabinet papers disclosure: judicial 'peep' into politics

by Neil Scott

THE recent Court of Appeal decision relating to the disclosure of Cabinet documents is important, but not aa revolutionary as some reports suggest. To understand it we need to follow the sequence of events.

On April 27 1981 the Govemor-General in Council made an Order applying the "fast track" procedures of the National Development Act to the Aramoana aluminium smelter.

The Act states that such an Order moy be made only when the Governor-General in Council considers certain criteria (mainly relating to the essentiality of the work and of speed in its progress) are present.

Various environmental groups sought to have the decision reviewed by the court, on the grounds that the proper criteria were not considered.

The environmentalists sought discovery of documents against the Crown. This is a routine step in any litigation. All it means is that the parties file affidavits listing relevant documents currently or previously in their possession, and indicating those for which they claim privilege from disclosure to the other part.

If any party wishes to challenge a claim to privilege, the matter is determined by the court.

The Crown has a special ground of privilege (not surprisingly called Crown privilege) from the Crown Proceedings Act. In some situations it has on absolute immunity even from making discovery.

In others — the present case is one of them — the court has a discretion as to whether to order discovery against the Crown.

In this case the court decided that, for the matter to be dealt wiih effectively, the Crown must discover all documents connected with Cabinet or Executive Council meetings on or about April 27 1981.

But the Crown was still left with the right to claim privilege against production (disclosure) on public interest grounds.

The Crown duly complied with the court order, claiming privilege in respect of certain Cabinet-related documents. The grounds for the claim were set *out* in a "*direcrion*" *from* the Deputy Prime Minister to the Clerk of the Executive Coucoil. A first, general, grouod was that disclosure of such "high level" documenta would inhibit the giving of "free and frank" advice.

More specifically, the direction stated tbat (i) the documents dealt with current Government policies; (ii) the Cabinet paper was a atarting point for discussion on a matter depending upon opinions and the future direction of Govemment policy; (iii) the Cabinet paper might present an "incomplete and inaccurate" picture as it did not record oral discussion; (iv) production of documents indicating the view of an individual minister would undermine collective responsibility; (v) the advice sheet to the Governor-General would not record oral advice; (vi) the oath of secrecy taken by executive councillors would be breached by disclosure.

The conventional view, until recently, was that Cabinet documents as a class were conclusively protected by a ministerial certificate claiming privilege on public interest grounds.

However, in the 1978 case of *Sankey v Whitlam* the High Court of Australia held that there was no class of documents immune from the general rule requiring disclosure, except to the extent that public interest dictated otherwise. Therefore, it was always up to the court to decide whether disclosure or non-disclosure best served the public interest.

Shortly afterwards, in *Burmah Oil Co Ltd v Bank of England*, the House of Lords reached a similar decision. However, the balancing of public interests required could not be done unless the court (in the words of Lord Edmund-Davies) "took a peep".

It was almost inevitable, therefore, that the New Zealand Court of Appeal would follow this line. Having noted that inspection by the court should not be undertaken "without good reason" it set about finding auch a reason.

In fact, it was provided by the ministerial direction itself. The judges focussed on several references in the *direction* to "Government policy". On the other hand, no mention was msde of the criteria set out in the National Development Act.

This suggested (to the Court of Appeal) that the Governor-General in Council may not have considered the correct criteria when putting the smelter project on the "fast track". The direction's declaration that the documents might give an "inaccurate or incomplete picture", through not revealing oral discussion and advice, simply reinforced that view.

Therefore, the court took its "peep" — finding, a day or two later, that "notwithstanding the terms of the ministerial objection" the interests of justice did not require disclosure: So, after all that, the environmentalists did not get access.

The court's decision to inspect struck a blow for individual liberty and freedom of information — good stirring stuff. However, its grounda for doing so seem to contain the very flaws it detected in the ministerial direction.

That document was concerned with the question of prejudice to the public interest from disclosure. The National Development Act criteria were simply not relevant to that question, and there was no reason why they should have been mentioned in the direction.

On the other hand — if Government policy-deliberation is entitled to be conducted in secret, and it has seriously been suggested otherwise — then Government policy aspecta were highly relevant.

Therefore, in concentrating on the direction's lack of attention to the statutory tests, the court appears to have addressed itself to a point which was not in issue at that stage.

There may well have been good reasons for the court to inspect — but those upon which the decision was made would seem not to have been among them.

Furthermore, the court fails to acknowledge the true nature of Cabinet government. Many people, representing many viewpoints, participate in Cabinet deliberations — inevitably, in a matter such as the invoking of the National Development Act, all sorts of factors will be canvassed, going far beyond the statutory criteria.

The real issue is whether those criteris were canvassed at the end of the day, not whether they were the only considerations at every stage of the process. To believe otherwise is politically nsive.

Indeed, we may wonder afresh whether judges really are equipped to make the decision, in such matters, as to where the public interest lies. For this is a political decision, requiring an awarenesa and acceptance of political reality.

But on other political fronts the court did pretty well. In ordering inspection by it of the dispured documents it established its primacy as the arbiter of the public interest.

In declining disclosure it avoided a potentially unpleasant confrontation with the Government, which might of itself have undermined the progress already made by the court. Perhaps not so naive . . .

A SPECIAL REPORT FROM GOVERNMENT LIFE

$59,400,000.00

"The highest ever bonus distribution allotted to Government Life Policyholders"

Hutton Peacock, Commissioner of Government Life

"This is the highest sum ever added to our policyholders' cover

The bonus allotment this year amounts to at least $33 in additional cover per $1,000 insured plus past bonuses on all current Whole Life policies. In addition, for the first time we are paying a special additional bonus of 15% of the total bonuses on any policy if it matures or becomes a claim during the next twelve months, from 1 July 1981.

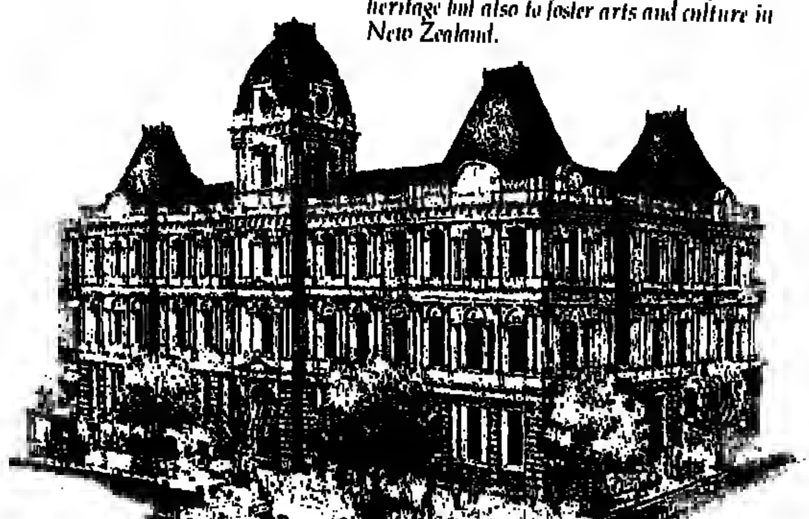
There are several reasons for this outstanding performance.

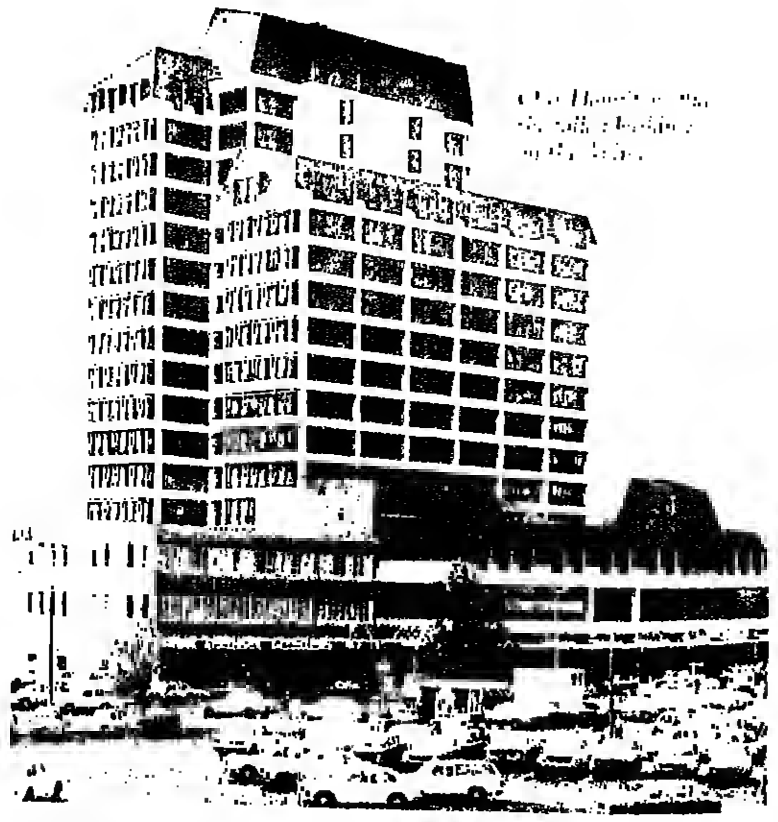
All our investment funds are professionally invested to maximise yield within acceptable risk levels. Our capable and expert fund managment team carefully research market trends for the highest possible return.

All Government Life funds are invested in New Zealand. No money goes overseas. **Farming, energy, tourism, housing finance for policyholders** and all matters relating to a "better New Zealand" are given special consideration in our investment strategy.

Government Life is the only fully mutual life insurance office owned by the people of New Zealand. Our policyholders are our only "shareholders". All profits are returned each year in the form of this additional bonus cover.

The Old Auckland Custom House. As well as having a sound investment Government Life is pleased not only to be able to preserve part of our heritage but also to foster arts and culture in New Zealand.





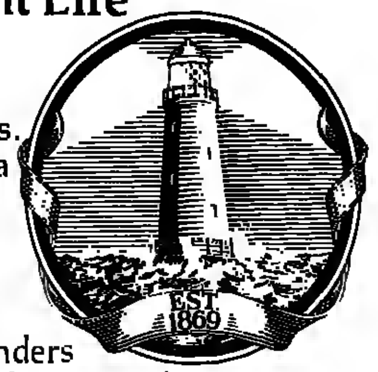
Financial Results for year ending 31 December 1980

GROSS INCOME	1980 $m	EXPENDITURE	1980 $m
Premiums	56.4	Policy Claims	40.5
Investments	55.8	Taxes	5.[illegible]
		Administration	13.9
TOTAL	112.2	TOTAL	59.4

Our Funds are invested in:

	$m
Properties	109.3
Loans on Mortgage, etc.	209.3
Government and Local Body Loans	169.8
Company Shares and Debentures	88.1
Net Current Assets	7.1
Total funds	583.6

We've changed more than our symbol at Government Life



Our symbol and corporate indentity programme exemplifies our commitment to our policyholders. We're building on the foundation of a proud history and heritage and looking ahead to change with the times.

We are constantly seeking new and better ways to serve New Zealanders and their needs — with progressive ideas, sound managment and innovative products.

Government Life has a dynamic new marketing direction and innovative management.

As part of our new marketing approach, we've recently conducted extensive research throughout New Zealand to determine current consumer needs and attitudes.

The results of this research will lead to some dynamic new products designed to meet the changing lifestyle and needs of New Zealanders. The changes we're making at Government Life will no doubt have a profound effect on the entire insurance industry in this country.

Government Life's Advisory Board is made up of industry leaders from around the country.

Long term strategy is an essential aspect of our overall marketing strategy and growth plans. In addition to our marketing team and Executive Committee, we also have the benefit of a unique Advisory Board. This Board is comprised of business and industry leaders throughout the country, who assist in monitoring the changing economic climate and help us in our future planning and direction.

Government Life is also in the process of recruiting additional professional individuals to join our team of representatives. Our new training program is intense, challenging and produces impressive results — our representatives are highly qualified to give the best possible service to our policyholders.

This year is only the beginning

Our outstanding financial results and accomplishments during the past year prove that Government Life is on the move. And we'll continue to keep looking ahead — with sound management, progressive ideas, and a commitment to meet real consumer needs in a challenging world.

This year is just the beginning of the new Government Life.

Hutton Peacock

Hutton Peacock, Commissioner

MACKAY KING GL156B

Railways

Kingston Flyer now wasted, idling in Southland

THE once-popular New Zealand Railways tourist train, the Kingston Flyer, doesn't do much pulling these days, a situation that won't likely be remedied until politicians take their courage in their hands and transfer the vintage train out of Southland.

Set up in 1970 at the behest of then Transport Minister Peter Gordon, the Flyer (which is, in fact, two steam engines and attractively-painted carriages and buffet cars) became a familiar sight plying between Lumsden and Kingston in Northern Southland in the summer and autumn tourist season.

But not even combined tourist numbers from Te Anau, Queenstown and Invercargill could hide the fact that costs were rising on the Lumsden-Kingston run, which was used by only a few, very small goods trains each week.

NBR was the first newapaper to predict that the Flyer would be taken off that run, a prediction at first denied by the department and politicians.

But in 1979, the department moved, and after some bitter protests from Northern Southlanders that they were not being given a fair chance of making the Flyer pay, the Flyer was shifted to Invercargill to soften the blow.

The Kingston-Lumsden line has since been closed, and the Railways no longer has to meet large bills for track repairs when floods strike the line.

But the shift to Invercargill has also been a failure, and the department must now be seriously considering shifting the Flyer out of Southland for good, a move that should gladden the hearts of northern tourist promoters and railways enthusiasts.

The Flyer first ran from Invercargill on excursions in December, 1979, and January, 1980, to such destinations as the port of Bluff and the Western Southland town of Wairio.

Generally, the trips were well patronised as Invercargill residents discovered the delights of old-time train travel.

But charters between February, 1980, and last December were few and far between.

The last season was even worse. Passenger numbers were down 30 per cent on the trips to Wairio and 15 per cent on the runs to Bluff, and that meant a loss of $10,000 for the department for the seasnn alone.

Since then, the news has been even grimmer. Only three charters of the Flyer have been taken out, and the department is not expecting any more before spring at the earliest.

Departmental officials have expressed disappointment at such an apparent lack of interest, pointing out there are only 235 seats to fill.

But locals have resisted mainly because of the high charges. To charter the train for a trip to Bluff could cost between $800 and $1000, depending on the time involved.

Longer trips could cost several thousand dollara, while a trip to Alexandra would cost about $10,000.

For the shorter trips, the cost shared among 235 people does not seem unreasonable, but as many are likely to be families, they add up to a sizeable lump for the person paying.

In spite of the lower patronage and dismal forecasts, Transport Minister Colin McLachlan has promised the Flyer will stay in Southland for another season, and he has said it could never run as an economical operation, even during its season.

But he has steadfastly refused to lower the charter costs during the off-seasnn because he said his department could not be expected to absorb charter losses as well.

There are several elements which constitute the rate charged, including staff wages, fuel consumed, locomotive and carriage running costs, and it must alao make a contribution towards the department's fixed costs.

Direct costs of charters must be recovered, McLachlan said.

"We are talking to a steam train. It cannot be simply cranked up before an excursion and switched off at night like an internal combustion engine," he said.

The department's charging policy also means that costs will be higher at weekends or public holidays when more people are available or likely to use the Flyer. During the week, when fewer people are interested, costa are lower.

Nobody can see a solution to the problems in Southland.

The province's largest tourist promoter, the Invercargill Licensing Trust, wanted a five-year commitment, a longer season from October to March and more frequent trips. That was not forthcoming, and the trust has found it cannot presell trips on the Flyer in such a short time.

The lack of a future also means that there are few facilities at potential terminals. For example, at Bluff, passengers get off the train in shelterless railway yards — the Bluff railway station was burned down some years ago and was not replaced — which brings discomfort when it is cold or raining.

Local pundits are not predicting changes before the election because the Flyer remains a hot issue in the south, with many believing it should still run on the Kingston-Lumsden line.

But by January next year, the Flyer should be travelling north for a permanent home in more profitable and populous territory.

Overseas trade

Pacific islands concern at lessening NZ interest

by Allan Parker

PACIFIC Islands businessmen and government officials are increasingly worried that New Zealand is downgrading the importance of the region as a trading partner.

Their concern is reinforced by New Zealsnd businessmen currently exporting to Pacific Islands, who see recent Australian promotional and transport moves in the area as threatening.

Recent events to underscore their fears include:

- New Zealand Government refusal to sponsor a proposed trade fair in Tahiti;
- Air New Zealand moves to reduce its flight services to the Cook Islsnds and divest its one-third share in the Rarotongan hotel;
- New and proposed flight services by Australian airlines into the region;
- A beefing-up of official Australian support for trade initiatives to Pscific Islsnds.

One Auckland businessman said: "With all these happendings I can see a vacuum being created in the market — one that will be filled by the Australians who are becoming very aggressive in the area."

The Export Institute, too, is "concerned" about the developing trend, according to a spokesman.

The institute has abandoned plans to hold a trade fair in Tahiti, originally scheduled for September, in view of continuing Government refusal to sponsor the would-be New Zealand participants. (*NBR*, June 8).

The Government decision was made because of fears that the French Government would be upset by such a trade fair, although the French trade counsellor in Auckland, Christian Beaucoup, denied there would be any problem.

Proponents of the fair also pointed our that Australia held an export fair in Tahiti last year. The fair waa so successful that the Australians intend holding another in Papeete later this year.

As well, *NBR* has learnt, the official Australian air carrier Qantas will start a three-times-weekly service between Sydney and Papeete in September, indicating the increaaed importance being placed on the French colony in particular and the Pacific region in general by Australia.

The leader-to-be of the New Zealand fair in Tahiti, Aucklander Gilbert Ullrich, ssid he was "terribly disappointed" with the Government's refusal to reverse its no-go decision and subsequent Export Institute agreement not to proceed independently.

Ullrich, whose company Ullrich Aluminium Ltd, is a long-time exporter to the region, said Tahitian businessmen felt New Zealand was not supporting their efforts to sell "made in New Zealand" goods to the Islanders.

Coupled with these moves is Air New Zealand's announced desire to cut back air services to the Cook Islands and to dispose of its holding in the Rarotongan Hotel.

Cook Island reaction to the statements by the New Zealand Government-owned carrier has been sharp. Tourism Minister I Short waa quoted in the *Cook Island News* thus: "In my view, Air New Zesland, by virtue of its monopoly position, has an important part to play in the tourist industry in the Cook Islands and it cannot shirk its responsibilities.

"If Air New Zealand pulls out then it is clear that it has never accepted its true responsibility to the Cook Islands development, particularly in the tourist field."

To fill the threatened gap, the Cook Islands Government has invited two Australian airlines — Quantas and Ansett — to look at servicing the islands. Of the two, Ansett is regarded as the front-runner.

Finally, the Australian Government is running a significant number of official trade promotions and exhibitions throughout the Pacific this year.

At least six trade promotions will be held this year, including the Papeete one.

In contrast, the only official New Zealand sponsorship of a trade promotion in the Pacific this year is an exhibition of New Zealand goods in a Port Moresby store later this month.

An Australian trade representative in New Zealand is reported to have told an Auckland businessman that the Australian Government is giving "maximum support" to Australian exporters moving into the Pacific.

As well, Qantas is reported to be marketing its services — and Australia — aggressively, offering Pacific Islands businessmen free or discounted flights to the Australian mainland.

One business source told *NBR* that Australian exporters are achieving better results than New Zealand in New Caledonia, selling comparable quality goods at a higher price. While New Zealand has captured only 4 per cent of the market there, Australian businesses are now up to 11 per cent — and growing.

New Zealand exporters attribute this in part to the decreased air cargo space available.

Said one: "Sometimes on the Air New Zealand 737 flights to Fiji, filled with holidaymakers and Fijians returning home, the plane con't even take all the passengers' luggage let alone the cargo!"

The Export Institute agrees that declining air freight services to the Pacific are worrying.

"There has heen a gradual diminishing of air cargo capacity in the last six months. It's not likely to be reversed," said a spokeaman.

"We're conscious of what the Australians are doing; they are very active in the area.

"They have a network of official and unofficial trade missiona and exhibition activity that is greater than ours."

The institute hopes a "reverse-buyer" trade fair in Auckland next year will help counter the trend. Some 500 key Pacific Island buyers will be wholly or partly sponsored to the exhibition.

"We used to be a high flyer. Now we're a high drifter."

The polls

Mirror, mirror . . . National's the most middling of all

by Colin James

MIRROR, mirror, which is the fairest party of all? . . . Not National, it seems from a question asked of New Zealanders as to how they feel about their choices for the November election.

On five out of seven scales of assessment, in a question specially commissioned by *National Business Review* in the June 6 Heylen Poll, National scored worse than either of its rivals.

This was the case even among those not committed to either of the two major parties.

And, as between National and Labour supporters, Nationalists generally were less enthusiastic about their own party and less condemning of their main opponent than were Labour supporters.

As far as it goes, this suggests that the election may be developing into one in which the strongest feelings are anti-National feelings. Depending how the votes fell between the other two parties, such feelings could be severely damaging to National's chances of re-election to the Treasury benches.

The graph tells the main story. Each respondent was asked to rank each party on a five-point scale between two opposing statements. The statements said of each party:

I: With people who are united and work well together — with people who are divided and have difficulty working together.

II: Would govern in the interests of all New Zealanders — would govern in the interests of the people who control or back it.

III: I am willing to trust — I am not willing to trust.

IV: Has the right sort of leaders for New Zealand — has the wrong sort of leaders for New Zealand.

V: Economic policies are likely to improve our standards of living — economic policies are unlikely to improve our standards of living.

VI: In tune with the way of life New Zealanders want — not in tune with the way of life New Zealanders want.

VII: Would unite the country — would divide the country.

The thick bars on the graph record answers most strongly agreeing with each statement and the thin bars those less enthusiastically agreeing with the statement. Above the centre line the bars record answers agreeing with the positive statement and below agreement with the negative statement.

Not recorded are the non-committal answers — the middle of the five-point scale.

The graph records starkly a stronger negative assessment of National than either Labour or Social Credit. This is especially the case if only the "extreme" negative assessments are considered.

The picture is less clearcut for positive assessments. Both Labour and Social Credit scored better than National, but not by much, in the extreme positive assessments — but National matched Labour and was not far behind Social Credit in overall positive assessment.

Nevertheless, overall National came out worst — as the thick black line, recording the "mean score" indicates.

Only on two of the seven counts did National do better than Labour — leadership and internal unity and even on those its negative scores outweighed the positive.

Labour might at least have been expected to be thought more sympathetic to its backers (the union bogey), less likely to improve the standard of living and less in tune with the New Zealand way of life, but this was not so. It seems National may not be providing New Zealand the way the voters want it.

Is this assessment just a reflection of party preferences?

No. Again with the exception of leadership and internal unity, Labour supporters were more likely than National supporters to think well and less likely to think badly of their own party.

They were also more likely to think badly and less likely to think well of National supporters than National supporters did of Labour.

The findings seem to suggest that if Bill Rowling comes on more strongly, as he did during the 1978 campaign, and if the Labour parliamentarians can avoid any more public squabbles, they could talk behind them election winning support.

Social Credit supporters and "undecided" voters — potential converts — also generally rated Labour better than National.

But there are some caveats for Labour.

We do not know, for instance, what weighting to give the questions. It could be the leadership and unity outweigh the other five — and, indeed, if the continued National lead (4.5 per cent in the poll accompanying these questions) is an indication, they may well be.

And we do not know that the seven scales chosen are the most appropriate. The format of the poll — and finance — limited opportunities to do the necessary additional research.

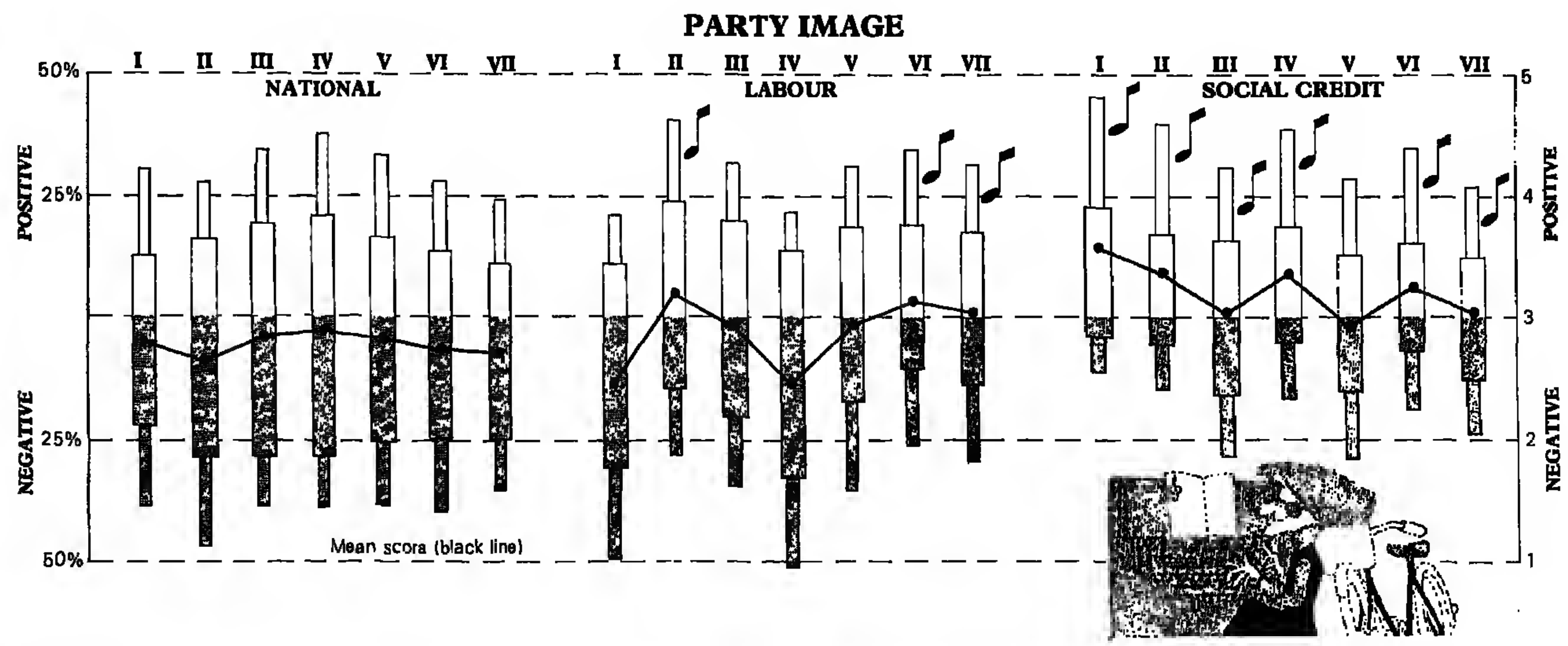
And, though Labour came out better than National, be came out worse overall than Social Credit — by a long way on the negative side (though this is partly to be expected from stronger antipathy towards each main party by supporters of its main rival than a third party would be likely to experience from either).

Opinion generally about Social Credit was less extreme than about the other parties, confirming that it is a relatively acceptable escape route from the two main parties.

It scored better than either of the two main parties in assessment by party supporters of their own parties. Labour came second and National a poor third.

That was also how the undecided voters ranked the three parties. Both National and Labour strategists, it seems, have some hard thinking to do before November.

The Polls



Thailand: tourism prospers in mingling of cultures

UP HIGH in the misty mountains of northern Thailand, the Meo hill tribe folk openly smoke opium and the kids beg for Baht as moneyed Westerners bargain among them for silverware and handicrafts.

Two thousand kilometres to the south, just above the Equator, the wealthy gambol in the warm Andaman sea — protected in their luxury hotel resort compound by barbed-wire fencing that keeps the locals out.

The typical rich and poor confrontation. East meets West. Developed world in contact with developing.

And, as always, the dilemma: how far should culture shock be allowed to proceed.

For the Thai Government, the problem has become more complex by the economic surge it has experienced in recent years, a surge in common with other Asian and ASEAN nations such as Taiwan, Hong Kong, Singapore and Korea.

This new internal wealth has created a new middle class within Thai society. With cash in their pockets, these middle-class Thais are touring the sights of their own country as never before, bringing the country's own differing attitudes and habits to the tourist centres previously reserved largely for foreigners.

The result is a massive boom in the Thai tourist industry, with the obvious strains on cultural centres, natural beauty spots and handicraft factories that such rapid growth inevitably brings.

The foreign visitor industry is crucial to the Thai economy. It now ranks only second behind rice (Thailand is a huge rice bowl) as an export earner and Thai tourist officials anticipate tourism will outstrip rice to become the major export earner within a few years.

Comments one official from the Tourism Authority of Thailand (TAT): "We are limited in the amount of rice we can grow because of land availability, but tourism operates from a natural renewable resource which is virtually unlimited."

Last year, nearly two million foreigners sampled the attractions of Thailand. Malaysian visitors were the most predominant (335,000) followed, in order, by Japan (250,000), Hong Kong, the United States, West Germany, Singapore and France.

Australia was eighth with 67,000 visitors. Just 8500 New Zealanders went to Thailand in the same year (a 5 per cent rise on the previous year).

With a tourist industry grossing $750 million a year, no country trying to increase its living standards — particularly a developing nation with a large and traditionally poor peasant base — is going to close its doors to foreigners.

But, equally, the impact of moneyed foreigners on a society where the average income is only about $100 a month is significant.

The hill tribes people of northern Thailand are one example. For centuries they have wandered the mountains and jungles of northern Thailand, Burma and Laos.

Smuggling and poppy growing for opium production have been their major occupations over the years and some of the tribes were discovered less than two decades ago.

Today, the Meo people wear Japanese watches, sell handicrafts and silverware in the alien environment of Bangkok and transport their goods to nearby Chiengmai's night market on imported motorbikes.

The young are trained at university and the royal family has begun a programme to substitute poppy flowers with banana trees.

"Civilisation" has been slow to come to the Meos.

A major reason is the uniqueness of their lifestyle and the exotic "thrill" of the opium trade. As tourism has spread to Chiengmai, Thailand's second largest city, so has interest in the surrounding country and people.

On the road up into the mountains that lead to the village lie the major attractions — to Thais and foreigners — of the 700-year-old Wat Phra Doi Suthep temple and the king's winter palace.

It is only natural, then, that the sightseers continue an extra half-hour into the village.

Thus the problem: how should 20th-century people reach primitive man? And: the Meos have the same right as other Thais to benefit from the riches that tourism and national development bring?

The Thais are nothing if a pragmatic people. They recognise these problems — the desire of tourists to see the sights, the right of the Meos to become full citizens — and the associated benefits, the need to bring the two together with caution.

To cushion the advance of 20th-century Western culture shock, the Thais have deliberately left the route above the king's winter palace a dirt/mud track, remarkably similar to New Zealand bush tracks. The more comfort-oriented, less-adventuresome — usually the crassest of tourists, anyway — are thus discouraged.

A small gesture perhaps. But given the rapid advances of Western "civilisation" into the nation as a whole, it is an awareness of the need to make the process as gradual as possible.

Thai realism about modern tourism extends to Bangkok — the teeming capital of 4.5 million where traffic and its pollutants have reached absurd levels. Nightlife is, of course, a standard service expected by today's international traveller.

In Bangkok, Patpong Road — the street of bars — is Thailand's Soho, King's Cross and Pigalle.

Patpong has achieved an uncommon degree of international fame (or notoriety depending on your stance) for its bars and massages and girls and . . . other services.

While not condoning Patpong, tourist authorities are at least prepared to recognise its existence and its services.

For example, one tourist guide to Thailand is probably one of the bluntest available about any internationally-known night district.

To quote: "A drink on Patpong Road will cost around Baht 40 ($NZ2) for a beer, slightly more for spirits.

"Unlike many parts of the world, you will not be hassled to buy drinks for the bar girls. They will probably suggest it to you, but if you say no, that's it, and no bad feelings.

"If you do decide to treat the lady of your choice, and there's many to choose from, her drink will cost around Baht 25 ($NZ1.25).

"Many of the girls are prepared to continue the relationship after hours, in which case it's up to you to establish a mutually acceptable arrangement (reckon on an average of Baht 500 — $NZ25).

"A few words of warning — don't pick up girls on the streets around Patpong — they may be boys! Also, steer clear of the many touts in the area.

"If you do decide to see one of the girls after the bars close, remember that most of the larger hotels do not allow unregistered guests in the rooms (although some may just double the room rate for the night). There are, however, many small and inexpensive hotels around town, who cater for the 'short-time' visitor.

"A trip to the massage parlour will cost you around Baht 100 to 150 ($NZ5 to $7.50) an hour for a straight massage, and two or three times this for a special massage."

Such openness is typical of the Thais. They may not advertise difficulties willingly, but if questioned they are remarkably forthcoming about the problems their tourist boom is creating.

Certainly, though, the Thai commitment to tourism is total. The official Tourist Authority of Thailand (TAT) has recently been upgraded in national importance, manpower and budget, with offices in major centres around the world. Special tourist police patrol Bangkok streets to help foreigners.

The Thai approach has been a flexible one, recognising the needs of tourists and locals alike and trying to accommodate both on a path that minimises confrontation.

with an industry keen to treat the 'customers' right

TOURISM is already a major industry in New Zealand, with export earnings of well over $100 million a year. Industry planners and politicians predict higher growth in coming years as the world shrinks and the unspoilt attractions of New Zealand become more widely known internationally.

But the rapid growth in recent years — and forecast increases — have placed strains on accommodation and raised doubts about the impact of large-scale tourist traffic on the very beauty spots that attract the foreigners (and New Zealanders) in the first place.

The debate is likely to increase rather than be resolved in coming years. Like New Zealand, Thailand is undergoing a major tourist boom. And, again like New Zealand, the Thai Government has had to assess the impact of large-scale tourist traffic on cultural and natural beauty centres. In a recent visit to Thailand, NBR reporter Allan Parker was able to examine how the Thais have approached the problem.

Thai interest in NZ link

by Allan Parker

THAI Airways International has reaffirmed its interest in operating a service to New Zealand as Thailand moves to boost its already-booming tourist industry.

The airline has unsuccessfully promoted the idea for the past decade and Air New Zealand has reacted indifferently to suggestions of reciprocal landing rights.

At a recent briefing in Bangkok, senior Thai International officials told visiting New Zealand journalists the national carrier would like to extend a service to Auckland.

The officials believe an extension of the service currently running into Noumea from Manila is the best option. The route could pick up on a round-trip taking in Sydney/Melbourne, Bangkok, Manila, Noumea and Auckland.

Thai International flies to Noumea twice-weekly, through the Philippines. The airline's marketing officials believe the carrier would need a minimum of two flights a week to Auckland to make the route profitable.

"But it takes two to tango," was the wry comment of a Bangkok offical. "We think New Zealand was interested once, but we don't believe it is so interested now."

The renewed interest in New Zealand is part of a concerted marketing push by the airline into the Pacific. One official described the region as a "major" new area for Thai promotion.

The "smooth-as-silk" airline is hoping New Zealand will increase its multi-national network weave.

Ministry of Transport civil-aviation officials meanwhile have had discussions in Buenos Aires with Aerolineas Argentinas on the future of the Argentinian airline's flights across the polar cap to New Zealand.

It was decided that AA will continue its present monthly flights, for which there has been a big demand in Argentina, and extra flights will be offered during the summer for specific events such as the Rio carnival.

The Argentine national carrier believes its present scheduled service between Buenos Aires and Auckland is likely to spark off a trade boom between the two countries.

The airline cites the example of its Argentina-South Africa service established three years ago. At that stage, Argentina-South Africa trade was almost non-existent, but today stands at $60 million annually.

A spokesman for the airline said the 60 per cent passenger loadings on the current monthly flights convinced AA that the route is potentially commercially viable.

The airline believes it will eventually increase flight frequency to a weekly service.

It had wanted to extend its flights through Auckland to Australia, but permission is unlikely as this would place the airline in direct competition with Air New Zealand.

Aerolineas Argentinas sees two key markets for the new route. It points to a massive growth in Argentinians travelling abroad and seeking new destinations, and a likely boom in business travel, coinciding with a strong growth in trade between the two countries.

Management

Restructuring: implementation techniques, resources

by Ben Davis

LAST week's article in this series by Ben Davis described restructuring as an artificial way of accomplishing economic change. Because it is artificial it is difficult to accomplish successfully and disastrous consequences result from poor management.

This article primarily looks at the crucial role to be played by the public sector and why government is unprepared for that role.

RESTRUCTURING the country's economy has been much discussed and debated, but virtually all the emphasis has been on the final result at the end of the process of change.

We have focussed on what would be the new structure — what share and priority agriculture will be given compared with industry; which industries are preferable; how much the agricultural sector should be diversified from meat, dairy and wool; and so on.

If all the right decisions were made as to what would be restructured (changed), and by how much, our country could still experience great disasters. The reason: successfully accomplishing the process of change is almost as difficult as making the right decisions.

Why the role to be played by the public sector is crucial requires understanding of the process of change and the lag in feedback as to the degree of success achieved.

Whether the correct restructuring decisions are made will not be known until the 1990s or later. But if we do a poor job of implementing those decisions, whether they were right or wrong will never be known. The economy will become a shambles on the way to the promised (restructured) land because:

- The work to implement restructuring decisions is very difficult and different from what we do now;
- Techniques and skills necessary to successfully accomplish the process of change are known, but it is not known whether New Zealand will rise to the occasion.

Restructuring can be described as:

- Establishing a comprehensive and inter-related set of goals that define the new "shape" of the economy to be achieved *within* a stated time period;
- Accomplishing the reallocation of resources in both the public and private sectors so that resources conform to the new economic "shape".

Because the public sector is so intertwined with the economy, and because only government can reasonably be assigned responsibility for the *national* interest, the role of elected officials and the bureaucracy is crucial. Leadership by the public sector must establish and control the process of change that will take New Zealand successfully into the future.

Public sector leadership must include examples (pilot projects) of successful change; reallocation of public sector resources; and guidance and co-ordination of other resource reallocation by the private sector.

The public sector does not have enough of the special skills needed to perform its role in restructuring. Stated broadly, the special skills needed are high-quality managers and technicians who can perform sophisticated problem analysis, conceptualise solutions (almost always complex system-type solutions), and then implement solutions to achieve necessary change.

The public sector does not have enough high-quality resources because a lesser quality has been adequate for most past and present government activity — the performing of administrative functions in a *status quo* economy (all changes actually implemented since the 1973 oil crisis have been peripheral and marginal, not central and significant).

Restructuring calls for high-quality resources because tending the *status quo* is so different from accomplishing major change. Tending the *status quo* is comparable with a stroll to the local dairy on a fine day for the items on a list, with the list and the required amount of money safely in pocket.

Major change involves a very different shopping trip. Under these circumstances, an attempt is made to locate a dairy in a strange neighbourhood. The list of items to buy is safely in pocket, but the items on the list change rapidly during the search for the dairy. The prices of the items are changing almost as rapidly as the list, and the amount of money in pocket is not known. The weather is dreadful, and the car has steering problems and only one speed: too fast.

Under the *status quo* situation, many people are capable of returning home with all the items on the list. But how many of us would be successful under the appalling conditions of a major change situation?

The above analogy highlights three major difficulties in managing restructuring:

- No matter how carefully and competently the long-range goals are selected, it is known from the outset that they will have to be modified, more than once, during the process of change;
- There is imperfect knowledge of resources available, resources required, and what the cost will be;
- The voyage into the future is over unknown ground, in a vehicle over which we have imperfect control, and the speed of events is too rapid.

These difficulties are further complicated by some of the characteristics of a major change situation:

- There are various combinations of shorter-range objectives that could achieve the long-range goals. Selecting the best combination is quite difficult;
- It is impossible to successfully change an economic system if the process of change is attempted unsystematically. An economic system is not changed *per se*, but is achieved through a series of major changes to industries, markets, government departments, boards, authorities, and so on. Virtually all changes are system-type changes because of the magnitude of work required and interrelationships with other parts of the economy;
- The most notable feature of a system is the series of relationships. All parts are related, some directly and others indirectly, and it is not always possible to establish the type of relationship. When a system is imperfectly understood there are unexpected results.

Example: As part of a change project, one part of a system is modified and great care is exercised in anticipating the effects of change on the other parts of the system known to be directly related. As a result of the change other parts, thought to be remote from the modified area, are adversely affected because of system linkages that were not understood. Consequently a chain reaction of undesirable events is set in motion that will delay the project and cause additional work to be performed.

To reinforce the proposition that the public sector is unprepared for its crucial role in restructuring, we must examine how activity under major change conditions differs from *status quo* conditions. The marked contrast should clarify why more highly skilled people are required to discharge public sector responsibilities during restructuring.

"*Status quo*" activities are concerned with the administration of what currently exists. Administration of the tax laws by the Inland Revenue Department, for example. Law changes which adjust tax rates, or decide which group is given a rebate in a certain year, do not alter that kind of activity. The department's objectives (the efficient collection of taxes) is unchanged, and the essential manner in which the department goes about its business is unchanged.

Change-orientated activities are focused on *achievement*. The objective could be qualitative/quantitative improvement over present performance levels, or the achievement of something new (such as development of a supplementary national power grid based on solar energy).

Change-oriented activities aimed at improving performance in an existing situation can be more difficult than achieving something new. Consider the following example.

Railways . . . need to "Think change"

Government establishes a policy that requires the Railways Department to achieve the following:

- **Minimum requirement:** The existing level of socially desirable rail services (very carefully and comprehensively defined) shall not be further reduced and the excess of cost over revenue (when expressed in per cent terms) shall not exceed the defined variance for last year;
- **Maximum requirement:** The profitability of rail freight be increased by x per cent a year for the next five years. The revenue from passenger services shall increase by y per cent a year for the next five years. Both increases shall be weighted (adjusted) by an index that will reflect changes in the level of economic activity, therefore net increases achieved will only reflect improved department performance.

Successful implementation of that policy would require significant organisational, management, and staffing changes within the Railways Department. Those changes would reflect the partial shift from *status quo* activities to change-orientated activities.

Conceiving a programme and project structure to achieve the goals set forth in a policy statement (such as the Railway Department example) is comparatively easy. A balanced good-quality department team, with the help of a systems expert, could devise a solution.

The greatest portion of the day-to-day work activities by the vast majority of department staff would be similar to that performed under *status quo* conditions.

Upgrading the quality and timing of that work to achieve the more demanding conditions of major change is difficult. That upgrading is the job of change-orientated activities, and success in those activities is essential if goals are to be achieved.

Firm but sensitive control at all levels by managers and supervisors is the most important factor in improving the quality, timing, and sense of purpose of *status quo* activities sufficiently for change-orientated objectives and goals to be sustained.

The system control mechanisms developed and formalised by the US Air Force Systems Command are tailored to the difficulties, complexities, number of unknown factors, requirements for change during programme performance, control and co-ordination of government agencies and large corporations, and so on, of sophisticated R & D programmes.

The mechanisms are well suited to the demands placed on New Zealand by the need to restructure. And they have been documented to a degree that makes conversion to the New Zealand situation feasible and practical.

The Government must provide leadership to establish in the country an understanding of what is involved in the process of change and what will be the New Zealand version of that process (how we will go about restructuring the economy).

It must perform pilot projects as examples of successful change.

And it must provide leadership to the bureaucracy in fulfilling its role. Departments which directly provide goods and services must be restructured, and other departments must be restructured to the extent they must perform the guidance and co-ordination functions for the private sector.

The tools for accomplishing this are available for adaptation and use. The special skills needed by managers and staff are available to be learned. The unknown factor is whether sufficient numbers of managers and staff are willing to enter a much more demanding work environment.

The problem of bringing about sufficient change in people and organisations to successfully implement restructuring decisions is addressed in the next article.

Letters

College House boarders

I READ with interest Gordon McLauchlan's pen portrait of John Wareham and his recently published *Secrets of a Corporate Head-Hunter*.

However, for the sake of accuracy, I must point out both John and his father Jack are ex-College House boarders of Palmerston North Boys' High School.

R J B Clevely
Wellington

Galbraith seen otherwise

THE tone of the review of Galbraith's latest book, *A Life in Our Times*, rather suggests that Gordon McLauchlan knelt on the floor, his typewriter in front of him, gazing reverentially at a life-sized statue or picture, all 6ft 8½inches of him, of J K Galbraith.

The book is not yet available here but coincidentally, I have a Galbraith almost as recent, *Almost Everyone's Guide to Economics*, actually written with Nicole Salinger, a French writer who asked the questions. This makes it a very readable book and the earlier part does furnish a clear picture of what basic economics is about; but, of course, the Galbraithian message comes through loud and clear interspersed with the usual collection of snide remarks, and witticisms which, I find, quickly move from the amusing to the irritating.

The message is as Gordon McLauchlan spelt it out. The market is dead, smothered by the *large corporations* which fix their own prices. An exception is food and small servicing industries.

The book was published in 1979. In 1980 Chrysler nearly foundered because it failed (naturally) to meet a market which wasn't there!

A quote from page 43. "In western economies the orthodox don't want to admit that the market has declined. In the socialist economies the orthodox don't want to admit that the market is still necessary."

The fact is, of course, that market forces do operate, always have done and always will do. Even in the publishing world papers and magazines which do not provide what the market wants tend to fold up.

I don't imagine it at all likely that pure Friedmanism will be adopted but for McLauchlan to suggest that Galbraith's thinking penetrates more deeply than Friedman's is ludicrous nonsense scarcely worthy of a responsible business paper.

This is amply illustrated by reference to the Galbraithian policy for current economic problems. He would establish a policy known as CIPP (Comprehensive Incomes and Prices Policy) which would bring together warring interests who would agree on a wide range of controls on wages, prices, etc, which, he claims, is necessary because the market doesn't now work. Neither have prices and incomes policies except, perhaps, in wartime (Galbraith was in charge of price control during World War II) as Brittan and Lilley have shown in their book, *The Delusions of Incomes Policy*.

Galbraith is the most readable economics writer since Adam Smith, the difference being that Smith had a lot to say that was both analytical and constructive. Galbraith might well have done the same had he not developed an unfortunate paranoia about corporations which has become a sort of King Charles's head in all his writings.

Galbraith, however, is no socialist. He wants a fairer society which works only because just about all economic activity is hedged around with controls which experience has shown grow like nuclear fission as people find ways around them.

His solution for the large corporations is not to abolish them or nationalise them. At one stage he turns a question on his interlocutor and asks, "Have you thought what we would put in their place?" He would have a sort of supplementary board of auditors for each large corporation to vet and monitor the activities of the company. There must be room for doubt as to the practicability of such a proposal.

Business interests invited Friedman to come and see us and talk to us. Perhaps the Government could reciprocate by inviting Galbraith, perhaps to stay a little longer this time, and make a study of "How to Wreck an Economy by Pleasing Everybody."

J V White
Wellington.

Gordon McLauchlan replies:

I do not kneel before J K Galbraith but I admire him as a writer and as an economic philosopher above Milton Friedman and in temperate and reasonable language tried to explain why.

What a shame Mr White can't agree to differ and explain his opinion without adopting the spreading New Zealand style of abuse in argument by asserting my opinion "is ludicrous nonsense scarcely worthy of a responsible business paper".

A lot of publications carry Mr White's opinions which are shaped, I believe, by long experience in the public service and which I don't find ludicrous nonsense. I just wish he would stop jumping up and shouting them.

Access Data not related

ACCESS Data Ltd is a micro-computer consulting company based in Napier with offices in Taupo, Rotorua and Hamilton. It is in no way connected with Data Access and there is no Data Access registered in New Zealand as a company name.

We have a staff of 37 EDP specialists and are the biggest micro-computer consultants in New Zealand.

Our business is flourishing and we are agents for Altos computer systems, National Panasonic and Radio Shack computers.

We also have an electronic engineering division which is developing a range of cash registers that are completely computer-controlled. These will be available to the retail trade sometime in July.

To our knowledge there is no comparable equipment under development anywhere else in the world, and we already have markets in Australia, America and Austria.

Already there have been several references to our financial position by people confusing Data Access with Access Data and we would appreciate an explanation being printed.

Tom C Ellis
Manager
Access Data Ltd.

The do-nothing option: using our computer age skills

THIS week's suggestion for use of the nation's natural resources comes from I P Bielaski, qualified in chemical engineering and formerly a senior lecturer in Computer Science at Massey University. From this year he describes himself as a "freelance programmer/computer consultant/independent scientist/retired/house manager/farmer (unemployed)".

WHEN considering alternatives to the planned second smelter we must first consider the option of doing nothing.

If we believe that good government is one of minimum interference, particularly in business affairs, then this option is appropriate.

If the smelter is truly an economic business venture then it ought to be able to stand the economic realities of the marketplace and not have any preferential treatment such as subsidised electric power.

Any difficulties the investors have through the size of the plant, such as obtaining a large parcel of land on the open market must be considered to be offset by the economic advantage that size alone brings.

A do-nothing option will result in apricot growers remaining employed, the production of exportable produce for zero capital investment and zero consumption of foreign exchange. Can this be considered an infinite rate of return?

But by asking for approximate rates of return, *NBR* is implying that this is the appropriate arbiter in this argument. We should look at our objectives before we start trying to measure a project's performance.

The National party has a set of objectives which relate to private enterprise. This does not mean that one large enterprise is necessarily better than many small enterprises even if it is simpler administratively.

A large smelter would soak up so much capital that many small businesses will be starved for funds.

As a Government, their objective function should be related more to the interests of *all* the citizens rather than just party followers. Company benefits should not come into it directly as they do not have any right to any direct voting role in our political system.

The national interest of the people is best determined by the people themselves, suggesting again that Government interference should be minimal. In our inefficient political system our elected representatives do not fairly represent the variety of views held by the public.

Certainly, surveys such as that done by the Commission for the Future could be taken as a guide.

Its survey shows that large-scale economic development, with 7 per cent support is the least attractive approach. Even the opposite extreme, emphasising social and environmental growth with *no* economic development is nearly twice as popular with 13 per cent support.

People want a balance between economic, social and environmental emphasis. That is the national interest. The smelter does not fit this objective.

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If our objective function is defined to be more specific, such as minimising unemployment, we can approach the problem with mathematics rationality.

Given that Government interference is undesirable, the state must operate its levers of control fairly to optimise our object function. The Government could price electricity (which is claimed to be in oversupply) cheaper on the basis of the number of extra employees taken on.

The hidden hand of the marketplace would respond to improve the objective function. This may take some time to operate so corrections to the rates will have to be applied slowly.

It is the fault of the Government that it has been so slow to recognise that unemployment must be reduced in the national interest and take some action.

A reduction of the working week from 40 to 35 hours ought to be considered as an option that will make it more economic for industry to take on more labour.

A 30-hour week would make it convenient to run plant on a 60-hour week with two separate daylight shifts. The microprocessor revolution will force it eventually.

Certainly here could be a need for some new industries to improve the balance of payments. A foreign dollar of import saved is better than a dollar earned by export if the subsidies are equivalent because this makes us less vulnerable to external factors.

In view of the economic outlook for the western world in general, this independence would be especially desirable.

The rising energy costs and its impact on transport costs means that our comparative advantage revolves round transport. Only high value products for export can overcome this transport hurdle that the old chestnut of more processing of all our primary products into higher value products still stands as a number one imperative.

The smelter firms will need to take high bauxite costs in a transfer-pricing exercise because the cost will continue to spiral through ever-increasing transport costs of the import.

An example of high-value products with low transport costs is the export of computer software. We can compete in this area because we have a well-educated populace from which can be drawn capable people to do this work without damaging our existing infrastructure.

Indeed academic inflation has meant that many school-leavers are over-qualified for the jobs they take on. If computer-capable people move out of existing establishments, many people could move up to more appropriate levels of their requirement.

Already small New Zealand organisations on the fringes of the computer industry have done very well overseas.

Two world-leading computer bureaux, Databank and the Ministry of Works, prove we have the capability when well managed. The Health Department computer experience is not typical.

If existing Government computer facilities could be made available in their unused time for software development, then almost no capital investment would be required. It is a labour-intensive industry which is what we want, and the costs of exporting the product are absolutely minimal.

The product can be cheaply copied at its destination for multiple sales.

What we lack is the consulting and marketing infrastructure required. Given the commitment to this industry, the finding and training of the productive staff will take much less time than the building of large-scale technological capital works.

The thing that we do lack in this area is the management capability. The productive time of a software developer can be expected to earn $50 an hour or more. In a year, allowing for holidays, skill maintenance, overheads, lost time etc, a person should be able to generate $50,000 worth of product.

This sort of work can be done at home, requiring no capital investment in land or buildings.

A good microprocessor in the $20,000 bracket could service a team of three productive people. After allowing for the programmer's income, a team of three programmers could earn $90,000 to pay for the computer and management and marketing infrastructure.

Computer technology . . . potential for our software

Hidden costs turn 'think-big' into 'spend bigger'

From Page 1

questions put by Labour's St Albans MP, David Caygill.

In the case of the second smelter *NBR* broke down the figures supplied in the answer. They clearly indicate that servicing the debt incurred will cost as much as the capital to build the plant.

All the debt in a debt:equity ratio of 60:40 has been raised offshore and is not to be repaid prior to 1990. Spreading the capital cost over the construction period — from 1981 to 1988 — interest payments add up to $350 million.

Full interest on the capital — which is set at 3 per cent "real" (the equivalent to a nominal rate of interest of 3 per cent above this country's inflation rate which *NBR* assumed would be 15 per cent over the period) would be payable for the last two years of the decade at a cost of $172 million.

During repayment of the capital — $478 million — over the first half of the 1990s, $250 million in interest payments would be payable.

The projects are in different stages of their development but no uniform methodology has been used to gauge their capacity to generate foreign exchange because the descriptions have been derived from different sources which have employed different assumptions.

Debt:equity ratios range from 90:10 to 60:40; the percentage of foreign content varies from nil to 100 per cent; interest rates vary and are calculated on different formulas for the offshore debt which are subject to differing time conditions.

The Muldoon figures excluded interest during construction; hence *NBR* calculations.

The figures were supplied to illuminate a table on net foreign exchange flows associated with the projects which Caygill elicited from an earlier question.

They are assumptions and should be considered "in the context of the broad caveats" of the first answer:

- The synthetic fuel plant, NZ Steel's expansion and the electrification of the main trunk line are subject to final decisions;
- "Alternative assumptions would produce different results";
- The timing of the projects "could be subject to significant changes";
- The estimates on individual projects are subject to a wide margin of error "and will be revised as new information becomes available";
- The offshore financing proposals may be modified at the national level through their level of Government borrowing which is necessary to finance the current account deficit. Detailed financing arrangements have not yet been concluded for most of the projects.

Despite the qualifications and the fact that interest and foreign exchange fluctuations are not considered, the written answer casts more light on the projects than the glimpses provided to date.

The volatility of the assumptions is indicated by the leap in the capital cost of the synthetic fuels plant. The first question elicited a figure close to $750 million but in these answers a capital cost of $958 million is acknowledged.

The assumptions are in 1981 dollars.

Expansion of NZ Steel.

The capital cost of $730 million, with a foreign content of 55 per cent, will be spent from 1981 to 1988. Offshore finance equal to the foreign content of capital costs has been raised at an average interest rate of 3 per cent "real".

Output from the plant, which the estimates put at $190 million worth of foreign exchange in 1990, has been valued at the United States trigger prices prevailing in the fourth quarter of 1978 and escalated at the New Zealand inflation rate. No offshore debt is paid before 1990.

Expansion of Marsden Point.

The oil refinery's capital cost of $552 million has a foreign content of 52 per cent and will be phased over 1980 to 85. Overseas owners have a 69 per cent stake in the project and the foreign content of the operating costs will be $16 million a year.

All debt is to be raised offshore and the average nominal interest rate is 15 per cent for a project with a debt:equity ratio of 80:20. Overseas debt will be repaid out of cash flow generated by refinery operations which will enable output of refined products to increase by about 28 per cent.

Synthetic fuel plant.

The Mobil project has a capital cost of $958 million with a foreign content of 60 per cent but debt of 80 per cent. All debt is raised offshore at an average interest rate of 2 per cent "real" to provide capital expenditure to be phased from 1980 to 1986.

Overseas ownership during the operating phase is 49 per cent when the foreign content of operating costs will be $41 million. The debt:equity ratio is 80:20 and the debt is repaid in equal amounts over the project's life.

Output has been valued by taking forecast value of crude oil as set out in the *Energy Plan 1980* plus a flat margin of $14.30 a barrel (reflecting the difference between the value of crude oil and petrol).

Stand-alone methanol plan.

The capital cost of $174 million has a foreign content of 60 per cent. The capital expenditure will be phased from 1981 to 1984 and the foreign content of operating costs is about $11 million a year.

The plant, which has an overseas ownership of 49 per cent, has a debt:equity ratio of 60:40. The plant's output of 396,000 tonnes a year has been valued at $220 tonne throughout the project.

All debt is raised offshore at a nominal interest rate of 8.5 per cent and is repaid as a first charge on available cash flow.

Third potline.

The Tiwai Point expansion has a capital cost of $177 million with a foreign content of 63 per cent to be phased over the period from 1980 to 1983. Foreign content of operating costs (excluding electricity) is $54 million for the project which enjoys 100 per cent overseas ownership. All debt is raised overseas at an average interest rate of 3 per cent "real" and is not repaid prior to 1990.

The 78,000 tonne output has been valued at $1628 a tonne except that a 10 per cent premium has been applied up to 1985 to reflect high world demand relative to installed capacity.

Second smelter.

Capital cost of $796 million, with a foreign content of 62 per cent will be expended from 1981 to 1988. Foreign content of the operating costs (excluding electricity) will rise to $150 million a year for a project which has a 50 per cent overseas ownership. All debt will be raised offshore at an average interest rate of 3 per cent "real" and is not repaid before 1990.

The debt:equity ratio is 60:40 on the plant which will produce up to 200,000 tonnes a year which has been valued at $1628 per tonne.

Ammonia urea plant.

Capital costs of $94 million have a foreign content of 58 per cent which will be expended from 1979 to 1982.

Foreign content of operating costs will rise to $2 million a year on the plant which has no overseas ownership. Gross foreign exchange earnings and savings rise to $32 million a year on the plant, which is financed by $17 million onshore.

The rest has been raised offshore and the average interest rate is 2 per cent "real". Offshore debt is to be repaid as a first charge on available cash flow from the project.

The debt:equity ratio is 60:40 on the plant which will produce 1000 tonnes of ammonia and 155,000 tonnes of urea a year.

Main trunk line.

Electrification of the main trunk line will incur capital costs of $135 million of which the foreign content is 52 per cent. Capital expenditure will be phased from 1981 to 1989 and the main operating saving arises from replacement of diesel oil — initially 18.5 million litres.

In addition to setting out assumptions for each project, Muldoon supplied the estimated impact on the current account of the balance of payments for the next 10 years of supplying additional electricity of 5000 Gwh — the amount required for the second smelter and the Tiwai expansion. From March 1982 to March 1990 the negative impact is calculated at $520 million.

That fits Energy Minister Bill Birch's acknowledgement in Dunedin recently that the additional cost to generate electricity for the two smelters, a sum of $1500 million, will be initially financed from borrowing. The cost of electricity generation, therefore, has to be added to the foreign exchange costs of the growth strategy projects.

Balance of payments flows for the projects taken collectively indicate that the $2 billion capital expenditure to be spent up to 1988 in foreign exchange would be returned in earnings and savings by 1990.

During that 10-year period the balance of payments constraint will be severely aggravated. In the 1984-85 year a total of $1645 million will have been spent on the projects which show a return of only $175 million.

The Planning Council has drawn attention to this problem in its *Implications of New Energy Developments* published in October 1979. "It would seem common sense to start with one or two projects rather than six or eight . . . Too much at one time could prove to be indigestible and might also have serious effects on investment and activity in other sectors.

"Phased development . . . would preserve flexibility and keep options open".

Energy

Smelter electricity costs: others carry burden

by John Peet

THE Government's 1979 electricity plan "revealed an expectation of substantial power surpluses throughout the 1980s . . ." according to the 1980 *Energy Plan*.

Instead of using the surpluses as an opportunity to save the country from the continuing trauma of heavy investment and environmental damage caused by new power stations, the Government decided to compound its past errors by selling off most of the surplus to Comalco (for a third potline at Tiwai Point) and then build more capacity to be sold for a second smelter.

The question whether there is a real surplus is made more difficult by the fact that the power system has been planned using the "dry year energy margin" criterion.

The system is designed "so that an energy capability margin of 7 per cent is provided above expected demands with the output of hydro-stations written down to a dry year level (85 per cent of normal output)".

In other words, the system is designed to provide a margin of safety, in dry years. Inevitably and properly there will be a resultant "surplus" of generating capacity most of the time.

The surplus capacity is needed for security, and must not be regarded as being for sale under any circumstances. Only if spare capacity exists over the dry year margin, does it become a true surplus.

It is not clear whether the derating of oil-fired capacity (to 15 per cent and 5 per cent respectively for thermal and gas turbine stations) is the result of detailed economic analysis, or is just another essentially political decision to cut down on anything which uses oil.

In any case, it results in a valuable short-term option for dry years being excluded from the planning exercise, even though it will still be available (and will be used) if required.

The result is that the Government is planning to build high-cost hydro and coal-fired replacements for these oil-fired stations, whether or not it has been shown to be economic to do so for the occasional dry year.

It is clear from the *Energy Plan* and a parent document, the *Report of the Electricity Sector Planning Committee*, that in the year before the *Energy Plan* was issued, electricity forecasts had been drastically revised from those of a year earlier.

Whether the results are any "better" than in previous years is obviously open to question, given the planners' lamentable past records.

One point arguably in the planners' favour, however, is the fact that the 1980 *Energy Plan* has clearly been subject to even more political direction (for example the need to plan for sales in aluminium smelting) than in previous years.

In effect the Government made the decision to sell 2000 GWh off to new electricity intensive industries, and later decided to make available a further 3000 GWh, essentially for a second smelter.

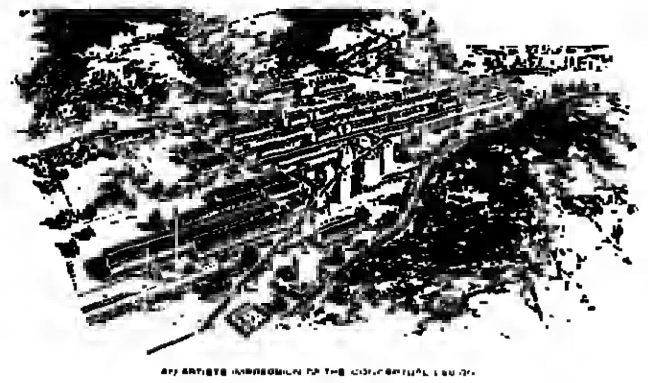
These are the two cases used in the Electricity Sector Planning report, with only a cursory reference to the true base case, namely that *neither* of these two alternatives should go ahead.

A number of economists are talking about a 35 per cent growth in real incomes over the next decade. While the linkage between GDP and electricity requirements is far from simple there is no doubt that the requirements of any such growth will have significant effects on our basic demands for power.

The plan to pre-empt all of our spare resources for aluminium smelting is, therefore, highly likely to land us in the situation of not having enough electricity for our own needs, while being locked into a contract to supply smelters well beyond the turn of the century.

The extent and duration of the real surplus that results after inclusion of the 2000 GWh block is clear from the *Report of the Electricity Sector Planning Committee*. With the dry year energy margin included, the surplus disappears after 1986/87.

This surplus will be used to start satisfying the second



smelter's 3000 GWh demand, with new capacity taking over as soon as it can possibly be constructed.

The power station construction and operation schedules that describe the 2000 GWh and 5000 GWh cases are given in detail in the planning committee report. The extra costs of the 5000 GWh case can then be obtained by taking the difference.

It is incorrect, not to say misleading and irrelevant, to confuse the issue (as some politicians and economists have been doing) by arguing that the constancy of the load justifies giving these new industries concessionary tariffs because they cost less to supply. This fact has already been taken into account by the electricity planners, and must not be double counted.

Capital recovery charges were evaluated from capital investment schedules (derived from published data and updated to March 1980) and standard New Zealand Electricity economic lifetimes. Fuel costs for the thermal power stations were evaluated using published data, and were assumed constant in real terms, with the exception of oil costs which were inflated according to *Energy Plan* projections.

These calculations were carried out for a mean year situation only and the calculated costs are therefore the absolute minimum costs, not the "expected" costs.

The cost of power (in March 1980 dollars) varies somewhat from year to year but averages about 2.5c/kWh. This result agrees generally with statements made by Energy Minister Bill Birch and Undersecretary Barry Brill.

The reason for argument is bound up with the fact that ministerial statements have also been made, putting the cost of new hydro generating capacity as well above 3c/kWh.

When this is added to the planning report's generation schedules, which show a substantially greater use of expensive coal and gas in the 5000 GWh case than in the 2000 GWh case, one starts to feel that something is wrong.

Murray Ellis, a Ministry of Works and Development scientist, first blew the whistle and pointed out the flaw in the energy plans.

The method is deceptively simple, and was probably accidental in the first place.

What happened is that the 2000 GWh case was designed not only with the 7 per cent dry year energy margin in place, but also with an extra margin on top of this, which averages roughly another 3 to 4 per cent over the 15-year planning horizon.

While this sort of gold plating in one sense can be regarded as prudent, it involves heavy capital costs, which will have to be paid for by someone, and should be subject to proper economic justification.

The 5000 GWh case, on the other hand, has been designed so that it barely even meets the basic dry-year demand, and does not have the 7 per cent margin until 1992-93.

In fact, the capacity actually falls below the dry year demand in 1986-87 and 1987-88.

This problem has been "overcome" by the decision to keep Meremere going for a few more years, at a cost of about $20 million, and in spite of the fact that this station is obsolete and so inefficient that it can only produce about 22 per cent of its coal energy input as electricity, in comparison with Huntly which will probably reach 35 per cent.

Even with Meremere included, however, the dry year energy margin averages only 3 to 4 per cent over most of the planning period, a value that is far less than that designed into the 2000 GWh case. Without Meremere, the margin averages only 1 to 2 per cent.

In fact, it is virtually impossible to build new power stations fast enough to provide the necessary dry year margin when it is first needed (a shortfall of 2000 to 3000 GWh is evident for 1986-88).

Even with the planned construction schedule, it is clear from the *Energy Plan* that ". . . adverse hydrological supply factors" may ". . . risk substantial oil burning during the late 1980s".

In other words, although the oil-fired stations have been derated for planning purposes, they will be used when needed for the 5000 GWh case, even though the 2000 GWh case contains enough spare capacity

SEVERAL highly qualified people — van Moeseke, Bertram and Johnston, Easton, Ellis, and McDonald — have analysed the economics of the proposed new aluminium smelting operations and the associated sales of electricity, as currently planned by the Government. All but McDonald have concluded that any extension of aluminium smelting is unlikely to result in a net economic benefit to the nation.

Media treatment of these studies, however, has failed to discuss the logical bases of the studies.

The fundamental assumption behind the original Government plans was that there was a surplus of "cheap" electricity, which it would be profitable to sell, rather than "waste".

As a professional engineer deeply involved in research on the place of energy in the economy, John Peet considered it important to look carefully at this assumption. He also made an independent estimate of the real costs of supply of electricity to electricity-intensive industries.

for the risk to be relatively much smaller.

The result of the official planning exercise to find the cost of electricity for the second smelter ". . . was like subtracting apples from bananas — and the answer was, predictably, a case of lemons" (as Molly Mellhuish observed in *Energywatch* August-September 1980).

To obtain a realistic estimate of the cost of power for the second smelter, it is necessary to ensure that the 2000 GWh and 5000 GWh cases are designed as far as possible with the same dry year energy margins, so that the *difference* between them reflects reality.

A reasonable "modified" 2000 GWh plan could involve delaying the construction of new power stations, and using spare thermal capacity to fill the gap in the meantime.

Ellis has proposed an approach that is not markedly different in principle, and gives comparable results.

The results of my calculations show that the real mean-year extra cost of the 3000 GWh block of power is around 4.2c/kWh — very much more than the 2.5c/kWh estimated from the official published plans.

Approximate capital requirements for the main options over the 1981-1995 planning horizon are:

5000 GWh Energy Plan about $2.5 to $2.75 billion

2000 GWh Energy Plan about $2.25 to $2.5 billion

Modified 2000 GWh Plan about $1.4 to $1.6 billion

From these figures it is clear that the capital cost difference between the 2000 GWh and 5000 GWh plans is only about $250 million whereas if my modified 2000 GWh case is used, the difference is in fact at least $1000 million. This is part of the capital cost of the second smelter, and must be included in any calculation of the economic consequences of the programme.

It is significant that my figure of 4.2c/kWh was obtained for the mean-year hydrological situation only, and contains no extra allowance for the use of thermally-generated power (including a substantial component from oil) in dry years.

The costs of gas and coal are also current accounting costs, not long range marginal or opportunity costs, which would be more appropriate in an economic study.

As the gas-based liquid fuels projects come on stream in the mid-1980s, the opportunity cost of gas will rise rapidly. As oil prices rise, gas prices should also rise.

The majority of the planned thermal electricity generation will be based on Waikato coal at Huntly and a second Waikato station plus Marsden B which is to be converted for coal firing.

It is widely known that there is plenty of coal available in the Waikato, and that it is open-cast coal which is to be used in these power stations. It is not so well-known that only a small proportion (about 20 per cent) of Waikato coal is accessible to conventional open-cast mining methods, and that this will be largely cut out by the late 1990s if the second smelter proposal goes ahead.

The rest of the coal is deep, and will cost a great deal more to mine, not only for power generation but also for all other coal-users in the central North Island.

As well, the real costs of building power stations have been escalating rapidly in recent years. It would be prudent not to assume that they can be built in the future for the same real price as today's estimate.

If factors such as these are taken into account, it is clear that the opportunity cost of power for the second smelter is very much greater than the very conservative 4.2c/kWh figure derived above.

It should be remembered that this figure was obtained using data largely favourable to the Government's case, and ignoring factors such as dry-year firming, depletion and long-term replacement of nonrenewable resources.

One point that has been skated over in the debate so far is the cost of the 2000 GWh of power relative to the true base case, the "no more smelters" option.

In fact, the third potline at Tiwai Point is expected to require about 1350 GWh of power, a great deal less than the planned 2000 GWh. There is no explicit market for the spare capacity, and so the 2000 GWh case has in reality been even more grossly overdesigned than was indicated above.

Again, this appears to be the result of political direction rather than departmental planning, but it introduces yet another distortion into the economic consequences of official plans.

If the planned 2000 GWh case is compared with the "no more smelters" base case (which assumes that little or no new generating capacity is needed before the expected surplus runs out about the end of the 1980s) the extra cost of the 2000 GWh is about 4c/kWh by the time the third potline starts up, and rises to about 6c/kWh by 1990.

This is a direct result of the level of overdesign in the 2000 GWh case, but has been largely ignored by proponents of the Comalco expansion, who have implicitly assumed that the "surplus" has no economic value other than its "opportunity cost".

To put it bluntly, *if* the 2000 GWh and 5000 GWh power station construction plans are

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Computers

Computer 'contacts' — another moral dilemma

by Stephen Bell

THE computer industry is not immune to political involvement problems of the Springbok tour type. Distinguished American computer expert, Herb Grosch, on a brief visit to New Zealand has been faced with a strikingly parallel situation.

As president of the Association of Computing Machinery Grosch created controversy some four years ago by backing a successful motion to cease co-operation with the Russians on the computer science front, because of Moscow's treatment of dissident computer scientist Anatoly Scharansky.

Yet he would not subscribe to a similar boycott of South African computer people he told *NBR* and earlier this year he created a fresh furore by visiting South Africa.

Explaining his apparently inconsistent decision, he pointed out that no South African "in the computer trade" had had occasion to complain of oppression as had Scharansky. The ACM, he said, had influence only within the computer industry, and it was not "valid" for it to seek to combat oppression which had not directly touched that industry.

His visit to South Africa, he felt, was an encouragement towards an international co-operation which would benefit the computer trade as a whole in that country.

Direct use of computer power to implement apartheid policies was a different matter, he admitted. It was almost impossible to prevent governments procuring computer hardware, but the "professional" software specialists had a duty to refuse to develop systems for what they considered immoral or politically dubious purposes.

The scarcity of computer experts worldwide gave them a chance to wield real influence in this respect, and there had been too little attention in professional computing organisations to the effect of computer-based systems on people's lives. The members often preferred to adopt a detached attitude, immersing themselves in questions of pure technology.

Grosch, with some 35 years in the computing profession ranked himself as one of a class of socially aware computer people who were passing out of the industry.

But he had great hopes for the social awareness of people now coming in at the bottom end. The trend was "sinusoidal", he said. Socially responsible entrants came in phases, interspersed with people with an "I'm in it for me" attitude.

One of the most positive moves which the professional organisations could make towards increased social awareness lay in formal certification of computer professionals, he contended.

The Certificate of Data Processing and Certificate of Computer Programming in the United States were beginning to command respect among employers. These qualifications carried with them a code of ethics similar to the rules of the ACM.

"I would like to model (a code of ethics) on Asimov's laws of Robotics," said Grosch. "Broadly, that you shouldn't design systems which leave human considerations out."

With his reputation as computer pundit and prophet, Grosch attracted audiences of several hundred in Auckland and Wellington to hear his predictions for the computer industry over the next decade.

Two years ago, he displeased some of the New Zealand computer people by his decision to address himself to the Society of Accountants in Rotorua, leaving the hierarchy of the Computer Society unaware of his presence here.

This time round, the computer people got a good look in, his sponsor being computer hardware manufacturer Burroughs. He graciously repaid it hospitality by including it among the four surviving mainframe computer companies predicted for 1991.

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correct, then the cost of power for the Comalco expansion is extremely high! Only, if the 2000 GWh case is redesigned, does the expansion begin to look more favourable, *but* this redesign immediately puts the high cost of the second smelter into perspective. A "Catch-22" situation!

My modified 2000 GWh plan has been costed out and the mean-year extra cost of the 2000 GWh block is much lower, at 3 to 4c/kWh.

A different method of analysis is needed, however, to evaluate the extra costs that will accrue to all other users of electricity, if the second smelter proposal goes ahead.

Whereas the economic analysis above used a discount rate of 10 per cent in real terms, the financial effects in real life reflect an interest rate on Government borrowing significantly lower than the rate of inflation.

The result is a substantial, indirect taxpayer subsidy on all Government capital works.

In addition, according to current policy about half of capital expenditure by the NZE is to be paid out of revenue, the rest out of loans, a process which shifts the burden of future demands on to current consumers.

The other determinant of cost to other consumers is the revenue from smelter sales of electricity. The price is apparently tied to the world price of aluminium, and the economic value of the sale is, therefore, critically dependent upon the time during which the current high aluminium price level can be sustained.

In my opinion, while there will be a short-term high world price for aluminium, current plans for substantially extending world smelting capacity and replacing high-cost capacity mean that the price may even decrease in real terms after the mid-1980s.

It is clear, nevertheless, that if the price did remain high in real terms significantly beyond that time, major sections of the world aluminium market would be lost to competitive metals anyway, and for this reason any assumption of long-term high prices must be seen as highly questionable.

In my calculations, however, I have used the very conservative assumption that the revenue per kWh of smelter sales remains constant in real terms over the 15-year planning horizon, at the levels recently quoted by the Government.

Results of calculations of the average cost of bulk electricity to all other non-smelter users show a steady decrease in the real price of power to other users over the next three years (until the new smelter starts up) followed by a generally flat price regime for the rest of the decade.

It is clear that the cost to "other users" with the 5000 GWh plan is very little different from that with the 2000 GWh plan until 1984, but that the 5000 GWh case then becomes gradually more expensive until the late 1980s, when it costs about 15 per cent more.

The results therefore agree with Government claims that the extra costs will be small, but they are very much at variance with claims that "The supply of electricity to the aluminium smelter would have no noticeable effect on the price of electricity to other consumers", and that "tariffs will remain stable in real terms" (Brill, quoted by *The Press* December last year).

In fact, if the tariff to "other consumers" *is* kept constant in real terms, the direct cost to them will be very much higher than it should be, because the real price *should* decrease steadily over the next three years.

The planned 2000 GWh case is not an appropriate basis for evaluation of the extra charges, and the modified 2000 GWh case must be used.

Using the modified 2000 GWh plan, the extra costs of the 5000 GWh case become significant in 1982, and increase until the late 1980s, when they are 30 to 35 per cent greater than for the modified 2000 GWh case.

Whether or not the real price of aluminium remains constant cannot be answered for some years yet. It is clear, however, than even if the current high prices are maintained, the average bulk price of power to all other users will be about one-third higher than would be the case if the second smelter option did not go ahead.

It is also apparent that in the absence of the Comalco expansion, the average price of power would have been about 10 per cent lower again.

Note that if the world price of aluminium drops in real terms, the cost to other users will increase. Given the arguments made earlier, I feel this must be regarded as being rather more probable than the converse.

I have three principal objections to the proposal to supply electricity to a second aluminium smelter at Aramoana, a proposal that will be mainly financed by a levy on every electricity consumer and taxpayer in this country.

First, the operation will benefit only a small section of the New Zealand population, plus a major overseas-owned organisation. Second, the whole operation has been planned in secrecy. Third, since the costs quoted as being the basis of the Government's studies are seriously in error, the conclusions of these studies must also be incorrect.

John Peet is a professional engineer, lecturing in the chemical engineering department of the University of Canterbury.